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Islam and economic growth in Malaysia

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THESIS

ISLAM AND ECONOMIC GROWTH IN MALAYSIA

by

Mahmud bin Ahmad

December 2003

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13. ABSTRACT (maximum 200 words)

Muslim countries are often thought of as culturally backward, authoritarian, misogynistic, and poor in economic performance. The teachings of Islam, however, prescribe democratic governance and free-market economics. While Muslims, as a whole, have tremendous economic potential, many Muslims are among the world's poorest and least educated. Corrupt autocratic leaders have attempted to capitalize on the Muslim dream of building a grand society but owing to these manipulations and leaders' insincerity, their efforts have yielded little fruitful results.

This thesis discusses nation building by fusing Islam, pluralism, democracy, and modernity. It argues that Malaysia's religious tolerance and adherence to western development models fostered economic growth since its independence. Clearly, practicing Islam, while pursuing social, economic, and political development, is a suitable model especially for heterogeneous societies.

The thesis offers a model, Malaysia, as a unique example of the influence of Islamic universalism, multiculturalism, and Islamic modernism to improve economic growth. The thesis depicts the evolutionary transformation of Malay-Islam from its settlement to its status as a model for Muslims and the Third World countries. This thesis illustrates the compatibility of Islam and modernity in economic development.

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ISLAM AND ECONOMIC GROWTH IN MALAYSIA

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Major, Malaysian Army
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Submitted in partial fulfillment of the
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ABSTRACT

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Praise is to God, the Compassionate, the Caring. His wishes and guidance has deepened my understanding of Islam and has helped me to complete this thesis.

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EXECUTIVE SUMMARY

This thesis examines Malaysia's experience in governing pluralism, Islam and democracy since its independence. We pose the question: What role does Islam play in Malaysia's economic development? Islam and democracy appear to be compatible but history suggests that Muslims are democratic underachievers due to authoritarianism and multiple interpretations of the *Qur'an*. Does Malaysia face such underachievement? Malaysia is ethnically heterogeneous, neither secular nor theocratic. Muslims are only slightly more than half of the total population but the constitution enshrined Islam as the state religion and identified the Malays with Islam. The Malay's constitution victory was bonded by a "social contract" in which the Chinese and the Indians were granted citizenship. Apparently, significant economic disparities focused greater attention on giving the Malays an affirmative action program of economic redistribution and ethnic restructuring. The strategy has made Malaysia the tenth fastest growing economy from 1970 to 1990. This achievement was strongly influenced by the Muslim Malay leadership, the inclusiveness of Islam in the economic development, political stability, planned economic programs, and pragmatic interpretation of Islam. Malaysia proves that Islam is compatible with modernity. Nonetheless, democracy suffered in some degrees as Malaysia is most susceptible to ethnicity and politico-religious tensions for which social justice is paramount. The state attempted to be closer to Islam by inculcating Islamic values in economics and in an administration that strengthened the secular-oriented nation building and the Islamization process. Muslim radicals and racial bigotry were neutralized by imposing harsh restrictions on political and civil rights. Additionally, the Malay cronies emerged to accelerate the pro-Malay policy's achievement. Practices manifesting this attribute do not dilute the Islamic faith but rather show that Islam promotes growth. Others could learn from Malaysia's unique experience, as it was rare among the developing economies. Malaysia's model in some degree can fit the nation building of other Muslim and other Third World countries so that Muslims can distance themselves from being economic and democratic underachievers. This is the purpose of this thesis.

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I. INTRODUCTION

A. MOTIVATION/IMPORTANCE

Authoritarianism and manipulative interpretations of the *Holy Qur'an* are among the obstacles facing Muslims in their attempts to achieve the goal of democratic governance.[1] Muslim countries, however, are often thought of as culturally backward, authoritarian, promoters of the unequal treatment of women, and laggards in terms of economic performance.[2] This perception is in stark contrast to the teachings of Islam, which prescribes democratic governance and free-market economics. The principles of democratic governance, such as participation, consultation, rule of law, and accountability are not new to Islam. While many Muslims countries lag behind the industrialized countries of Europe and North America, it is important to note that there are nearly 800 million Muslims living in societies with various degrees of democracy. Turkey and Malaysia, for example, can be considered leaders in the Muslim world in terms of democratic governance and economic development.[3]

We believe that it is important to discuss these issues now that some observers argue that, due to the prevalence of authoritarianism in the Islamic world, the teachings of Islam are incompatible to democracy. These observers have expanded their arguments by noting that Muslim countries are democratic and economic underachievers.[4] While on the surface Muslims, on the whole, have tremendous economic potential, to include 1.3 billion people and significant pools of natural resources, many Muslims are among the

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[1] "Democratization is normally a good thing and democracy is the best form of government. However, the key shapers of democratic political thought have held that the best realizable form of government is mixed or constitutional government, in which freedom is constrained by the rule of law and popular sovereignty is tempered by state institutions that produce order and stability." (Source: Larry Diamond, *Developing Democracies: Toward Consolidation,* (Baltimore: The Johns Hopkins University Press, 1999), 2).

[2] See for example "Creating Opportunities for Future Generation," *The Arab Human Development Report 2002*. Database on-line. http://www.undp.org/rbas/ahdr/CompleteEnglish.pdf. Accessed 5 May 2003. The report concludes that Arab countries should embark on rebuilding their societies on the basis of full respect for human rights and human freedom, complete empowerment of Arab women, and consolidation of knowledge acquisition and its effective utilization.

[3] Based on Freedom House Survey on "Independent Countries 2003," the freedom rating for Malaysia is partly free (civil liberty - 5 and political rights – 5); Turkey is partly free (civil liberty- 4 and political rights – 3 and improving), *Freedom House Survey on Independent Countries 2003*. Database on-line. http://216.119.117.183/research/freeworld/2002/table.pdf. Accessed 30 August 2003.

[4] M. Steven Fish, "Islam and Authoritarianism," *World Politics,* 55 (October 2002).

world's poorest and least educated. With an aggregate illiteracy rate over 60 percent, many Muslims cannot move into higher-paying, technical jobs and have few avenues of gainful productivity. Nearly 40 percent of Muslims, for example, live on less than $2.00 a day.[5] While the Muslim masses continue to suffer, corrupt autocratic dictators capture natural resources (oil, gold, diamonds, etc.) and loot the public treasury. Attempts by Muslims to build a grand society based on traditional Islamic principles of justice, freedom, peace and prosperity have been far from satisfactory. Iran, since the Islamic Revolution of 1979, has stagnated economically and is now widely viewed as corrupt and authoritarian.[6]

Malaysia, previously known as the Federation of Malaya, gained its independence from Britain in 1957. The federation was expanded in 1963 to become Malaysia, with the inclusion of the two former British colonies of Sabah and Sarawak on Borneo Island. Malaya is now generally referred to as Peninsular Malaysia, while Sabah and Sarawak are popularly known as East Malaysia. The current population of Malaysia is 22.6 million, which is comprised of about 58% *bumiputra* (indigenous locals, of whom the majority are Malay-Muslims), 24% Chinese, 8% Indians and 10% others.[7]

Malaysia, which is neither secular nor theocratic, has enjoyed an average annual growth of nearly 7% since the 1960s. [8] While Muslims are slightly more than half of the total population, Islam is enshrined in the constitution as the sole official religion. This constitutional victory of Islam was a major achievement for the Malays in 1957 in response to the political reconciliation with the Chinese and Indians; the two other major ethnic groups. The Malay interpretation of Islam continues to dominate the country's political system. The majority of the Malays, however, are relatively poor. In response to the widespread poverty among the Malays and the 1969 racial riot, in 1970, the

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[5] Mufti, Siraj Islam, "Commitment with Understanding." Database on-line. Available from *Islamic City Bulletin*. http://www.islamicity.com/articles/Articles.asp?ref=IC0305-1957. Accessed 2 May 2003.

[6] Freedom in the world score for Iran for 2000-2001: Political Rights 6; Civil Liberties 6; status Not Free. (Source: *Freedom House.* Database on-line. http://www.freedomhouse.org/research/freeworld/2002/countryratings/iran.htm. Accessed 3 October 2003).

[7] "Malaysia," *The World Fact Book 2002*, Database on-line. http://www.cia.gov/cia/publications/factbook/geos/my.html. Accessed 18 June 2003.

[8] A. H. Roslan, "Income Inequality, Poverty and Development Policy in Malaysia," *School of Economics, University Utara Malaysia*, 2001, 14.

Malaysian government resorted to an aggressive affirmative action policy. This policy of positive discrimination in favor of the Malays and against the Chinese and Indians was meant to reduce the economic income gaps between the major races. The Malaysian government's goal is to combine racial equality with economic growth in order to remain politically stable and to promote a harmonious coexistence among the ethnic groups. The policy of affirmative action, however, remains a contentious policy issue and some argue that it may hinder Malaysia's competitiveness in global markets.[9]

It is worthwhile to analyze how Malaysia contains ethnic friction and achieves economic growth because Malaysia is now considered the "most likely case" for a modern democratic Islamic state. The case of Malaysia illustrates the potential compatibility of Islam with democracy. While Malaysia may not be considered truly democratic, it is significantly more democratic and respective of civil liberties than many other Muslim countries. I argue that, in part, it is the Malaysian interpretation of Islam that has spurred the growth of democratic institutions and economic growth in Malaysia. Given the important tasks of rebuilding Afghanistan and Iraq, this thesis will offer policy prescriptions that can encourage moderate Islam to foster democratic governance and economic growth.

B. THESIS

This thesis examines the relationship between Islam and economic growth in Malaysia since its independence in 1957. Malaysia's religious tolerance and adherence to Western economic development models have fostered economic growth since its independence. Practicing Islamic principles, while simultaneously pursuing economic, social, and political development, is a more suitable model for Islamic states in the long run, especially those with pluralistic societies. This thesis specifically examines the tensions between ethnicity, pluralism, Islam and social and economic development. My purpose is to establish whether there is relationship between Islam and economic growth and to examine the strategies that countries adopt to develop their economies.

[9] See for example Kamaruddin bin Mohammad, "Reducing Income Disparity for Stability and Development: Malaysia's Experience," (Master's Thesis, Naval Postgraduate School, Monterey, California, June 2002), 16.

C. BACKGROUND

Malaysia has been described as "a unique Islamic experience," and to understand this uniqueness, one needs to look back to the modern history of Malaysia. [10] A relatively small country of 329,750 square kilometers, Malaysia's strategic location along Southeast Asia's trade routes has exposed Malaysia's people to a variety of cultural and religious influences. The written history of Malaysia begins in 1405 with the founding of Malacca by a Hindu prince from Sumatra (Indonesia). The Prince embraced Islam and started the Malacca Sultanate, which evolved into various other Muslim Malay Sultanates in the states of the Malay Archipelago after the fall of Malacca to the Portuguese in 1511 and then to the Dutch in 1641. The British role on the Malay Archipelago began in 1786. British colonization brought together the nine traditional Malay states and the two British settlements of Malacca and Penang into the Federation of Malaya in 1948.

One of the most significant aspects of British rule was the transformation of a largely homogenous Malay-Muslim society into a plural one. Steinberg describes this creation as "a distinct new society, created by Chinese and British entrepreneurship, alongside the traditional Malay one."[11] The new society was heterogeneous—the indigenous people were Muslims and the new immigrants were non-Muslims. The former mainly lived in rural areas while the latter mainly in urban areas and plantations. The two groups rarely mixed, leading to distinct socio-cultural institutions.

The British adopted a policy of protecting the Malays by maintaining the aristocratic classes, creating a small, Westernized Malay elite, and retaining the traditional peasant-based Malay economy. The Chinese, through hard work and colonial encouragement, became a dominant part of the modern economy, mostly visible by their monopoly over retail trade. The colonial divide-and-rule strategy created a multi-ethnic society.

The Malay-Muslims remain dominant in politics and are reflected by the domination of the United Malays National Organization (UMNO) in the ruling National

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[10] S. Ahmad Hussein, "Muslim Politics in Malaysia: Origins and Evolution of Competing Traditions in Malay Islam," *The Foundation for Global Dialogue*, Occasional Paper No. 15, Oct 1998; Ibid., Kamaruddin bin Mohammad.

[11] D. J. Steinberg, eds., *In Search of Southeast Asia* (New York: Praeger, 1971), 191 in S. Ahmad Hussein, Ibid., 6.

Front, a coalition of several ethnic-based political parties. The Malay-Muslims political dominance is also reflected in the constitution, which provides for the rights and privileges of the Malay constitutional monarchies in nine states (one serves as the national king for a five-year rotating term). It also provides for Malay as the national language and affirmative action programs to alleviate their socio-economic performance. The constitution guarantees freedom of religion and it allows for state financing of Islamic institutions and programs. Malaysia is a parliamentary democracy based on the British model. Most analysts, however, describe Malaysia as semi-democratic.[12] The characteristics of procedural democracy are present alongside heavy restrictions on political expression and a government monopoly on the main media. The same coalition government has been in power since independence, winning all general elections, and maintaining control in parliament with almost a two-thirds majority. However, the democratic setting in a multi-ethnic context allows for politics to be relatively open for participation with relatively slim chances of winning. Islam-based parties can also participate actively in electoral contests against the ruling elite.

Malaysia's adherence to the principles of Islam and tolerance in governing the pluralistic society may offer other interesting lessons. Since independence, Malaysia has been "little regarded but generally successful case in economic development."[13] Malaysia has enjoyed an average annual growth of 6% to 7% since 1966. Malaysia has become gradually less dependent on exporting raw materials, with the growth of manufacturing industries. Infrastructure and social services have reached quality levels. Malaysia can be thought of as a well-to-do, politically stable, and rather conservative country with a laissez-faire economy.[14] Since Malaysia can be regarded as one of the most advanced developing countries in Southeast Asia, Malaysia's experience can serve as a model for

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[12] See for example Harold Crouch, *Government and Society in Malaysia* (Ithaca: Cornell University Press, 1996); W. Case, "Malaysia: The Semi-democratic Paradigm," *Asian Studies Review*, 17, No. 1, (1993); Larry Diamond, *Developing Democracies: Toward Consolidation,* (Baltimore: The Johns Hopkins University Press, 1999). Diamond terms semi-democracy as pseudo democracy—electoral democracy which lack of key requirement: an arena of contestation sufficiently fair that the ruling party can be turned out of power; Giovanni Sartori terms it as hegemonic party systems in which the institutionalized ruling party uses extensive coercion, patronage, media control and other strategies to deny formally legal opposition parties a fair and authentic chance to compete for power.

[13] Donald R. Snograss, *Inequality and Economic Development in Malaysia (*New York: Oxford University Press, 1980).

[14] Ibid., 166-167.

other developing countries. Despite such successes, Malaysia has also experienced economic problems. Population growth, for example, has led to growing unemployment and the disparity of income among the races has added to the underlying tensions that could hinder economic growth.

D. STRUCTURE OF THESIS

Following this introductory chapter, a history of Islam in Malaysia is presented. Chapter II traces the arrival and the spread of Islam in the Malay Archipelago and how Islam was introduced to the traditional Malay institutions. In this regard, this chapter focuses on the emergence of the pluralist society and Malay nationalism during western colonialization and the Japanese occupation in World War II. It also discusses how Malaysia gained its independence and how the Malay became politically dominant. I also illustrate how state-sponsored Islamization programs were established under the Malay-Islam led government to safeguard the unity among ethnic groups and to achieve economic development.

The central argument and the theoretical framework of the study are discussed in Chapters III and IV. In Chapter III, I present Islam and economics, which examines Islamic related economic policies in Malaysia and how they perform. Chapter IV examines Islam and government policies in Malaysia and how both suit the pluralistic societies. The picture that emerges is one of an Islamic economy, which appears similar to a capitalist economy, with interest-free banking as the only exception. This stands in sharp contrast to the prevailing view of the Muslim scholars who state that Islam claims to have its own economic system and is not compatible with democracy.

Chapter V compares Malaysia's case with two selected countries in South and Southeastern Asia that reflect some degree of linkages between Islam, democracy, and economic performance. Indonesia is an interesting case to study because of its similarities with Malaysia in terms of multi-ethnic societies and cultures, but overwhelmingly different in the number of Muslims in the population and in its economic performance. It is relevant to compare Malaysia with India, a Hindu-dominant state and a well-established democratic state, and has a Muslim minority that is larger than Malaysia.

The concluding chapter analyzes the theoretical and empirical basis of the study, discusses the findings, and suggests government actions so that other Muslim nations can learn from the Malaysian experience and adopt democratic principles and escape the reputation of being economic underachievers.

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II. HISTORY OF ISLAM IN MALAYSIA

A. INTRODUCTION

Islam is now the fastest growing religion and has become the second largest after Christianity. Over 1.25 billion people embrace this religion, inhabit 55 countries and are the majority in 40 countries. Islam has spread in the middle region of the world from the Atlantic shore of Africa to the South Pacific, from Siberia to the remote islands of South Asia, which includes Malaysia, Indonesia, the Philippines, India, and Pakistan.[15] Islam spread from various parts of India and Arabia to the Malay Peninsular and the Indonesian Archipelago in the late 13th, 14th and 15th Centuries through merchants and Sufis.[16] In South East Asia, the existing regimes were consolidated by peaceful conversion to Islam. While Muslims remained a minority in India and the Philippines, in Malaysia and Indonesia, they became the majority. Islam survives despite vast differences in ethnic backgrounds, languages, culture, and historical experiences.

This chapter briefly reviews the history of Islam in South East Asia and the role of Islam in Malaysia. Islam in Malaysia has developed in an environment significantly different from that of the Middle East. Unlike many of the countries in the Middle East, Malaysia is a multi-ethnic and multi-religious country. Islam is culturally and politically dominant in Malaysia even though Muslims are only slightly more than half of the total population. Clearly, certain historical conditions and institutional systems gave rise to Islam in Malaysia. I first discuss the evolutionary formation of Islamic society in Malaysia. Then this development with other Muslim countries is compared to understand its variations. I assume that even though Islam originated in Arab societies and spread through conquest, the Islamic experiences in Asia, with the exception of India, was more peaceful in nature.

B. BRIEF HISTORY OF ISLAM

In order to understand the foundation of Islam in Malaysia, one needs to have an insight of the historical, social, political, and economic context from which this religion

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[15] Ira M. Lapidus, *The History of Islamic Societies*, 2nd Edition (New York: Cambridge University Press, 2002), xviii.

[16] Ibid., 382.

emerged. Islam in Arabic means "submission to God's will."[17] Those who submit to God's will and regard Prophet Muhammad as His Messenger are called Muslims. Islam traces its origin to Arabia of the 7th Century. In 610, God, through the Archangel Gabriel, revealed the scripture named *Qur'an* to Muhammad in Mecca, which marked his prophethood. For three years after the first revelation, Muhammad remained a private person and related his experience to his family and close associates. Muhammad then began to preach publicly, injecting religious ideas into the actualities of social and political life. Preaching Islam as a new monotheistic religion, he challenged all the existing institutions of the Arabs who were largely pagan—the worship of gods and economic life attached to their shrines; the values of tribal tradition; the authority of the chiefs, and the solidarity of the clans. Muhammad, the last prophet that was known as the "Seal of the Prophets," was the long succession of the Old and New Testament, and the Arabian prophets. Besides pagans, Muhammad included Christians and Jews in his mission.[18]

In Mecca, Muhammad's early preaching to his Quraish clans resulted in public ostracism. This no longer permitted Muhammad to make many converts, which forced him to assume a more powerful position. In 619, Muhammad resolved to seek outside support to protect his followers; to overcome the Meccan resistance; and to establish a political base. In 622, Muhammad and his followers made a journey to Medina, a historical event known as *hijra*, or migration.[19] From this event onwards, it becomes clear that his preaching had established a new religion alongside Judaism and Christianity. In Medina, Islam has crystallized both as a faith and socio-political system. Followers of his faith form an *umma*, a community of Muslims, whose common bond in religion symbolically reflects the central Islamic concept of Divine Unity. Revolving around Muhammad with the *Qur'an*, the religion of Islam became an ideology, uniting the *umma*. The united *umma* asserted their hegemony first in Central Arabia and Egypt, and then across North Africa and Persia.[20]

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[17] Sachiko Murata and William C. Chittick, *The Vision of Islam* (Minnesota: Paragon House, 1994), 3.

[18] Ibid., 21.

[19] Ibid., 23.

[20] Andrew Rippin, *Muslims: Their Religious Beliefs and Practices*, 2nd Edition (New York: Rutledge, 2001), 4-7.

Muhammad's death in 632 plunged the *umma* into two successive politico-religious crises—the issue of succession and religious fragmentation.[21] Muhammad did not specifically mention his successor. The situation put pressure on the Caliphate that went through several phases that coincide with the four *rashidun,* or Rightly Guided Caliphs; Abu Bakr, 'Umar, 'Uthman, and 'Ali (632-661), and several Islamic dynasties. The political tension of leadership escalated into a series of civil wars and a permanent religious split between the Sunni and the Shi'a, or the "party of Ali." The split only affect the legal and theological schools, as the Shi'a has produced an alternative vision of Islam. Nonetheless, Islam remains unified as a religion.[22]

The Sunni-Shi'a split traces back to the days of Ali, the fourth of the Rightly Guided Caliphs. For the Shi'a, Muhammad has a special relationship with Ali as Ali was his cousin, son-in-law, and one of the first to embrace Islam. Ali therefore has legitimacy to rule the *umma*.[23] Immediately after Muhammad's death, Abu Bakr was chosen on consensus as the first Caliph. Acknowledging that the religious authority and unity of the *umma* was paramount, Ali accepted Abu Bakr's appointment although Ali's followers rejected the appointment.

When Uthman become Caliph, he revoked Umar's policies that disfavored Uthman's Umayya clan. The decision resulted in a civil war and in his assassination in 656. Ali was elected Caliph and was supported by Uthman's assassins. Ali, however, faced serious factional opposition of which Mu'awiya, Uthman's cousin, was the strongest. Mu'awiya wanted the killer to be punished. Ali was forced to negotiate and agreed that Uthman's assassins were unjustified and a *Shura*[24] needed to be formed to elect a new Caliph. Ali's followers saw his negotiation as a defeat and they assassinated

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[21] Mohamed Osman, "Islam and Democracy: Reflecting Experiences of Malaysia and Indonesia," (Master's Thesis*,* Naval Postgraduate School, Monterey, California, March 1999), 9.

[22] Ibid., Rippin, 113.

[23] Ibid., 114.

[24] "*Shura* is consultative decision making that is considered either obligatory or desirable by Islamic scholars. Those scholars who choose to emphasize the *Quranic* verse: "and consult with them on the matter" (3:159) consider *shura* as obligatory, but those scholars who emphasize the verse wherein "those who conduct their affairs by counsel" (43:38) are praised, consider *shura* as desirable. The first verse directly addressed a particular decision of the Prophet and spoke to him directly, but the second verse is more in the form of a general principle." (Source: M. A. Muktedar Khan, "Shura and Democracy," *Ijtihad*. Database on-line. http://www.ijtihad.org/shura.htm. Accessed 3 October 2003).

him.[25] Mu'awiya declared himself as Caliph and was accepted by the dominant interests, marking the beginning of the Ummayad dynasty. The civil war permanently split the *umma* on who had the legitimacy to be the Caliph. Muslims who accepted Mu'awiya's succession and the historical sequence of the Caliphs after him were the Sunnis. Those who held Ali was the only rightful Caliph and that his descendants should succeed him were the Shi'as.

The differences between Sunni and Shi'a do not concern the fundamental belief in Islam, but rather in practice, interpretation, and political theory. The Sunnis were broken into four *madhhab*s (schools). The *madhhab*s follow the name of their founders: Abu Hanifa, Malik Ibn Anas, Ibn Hanbal, and Al-Shafie. Most Shi'as follow a fifth *madhhab*, named after the Sixth Imam, Ja'afar al-Sadiq, who was also one of Ibn Hanbal's teachers.[26] According to the jurisprudence theory in Sunni Islam, there are four sources from which law can be derived: the Qur'an, the *sunna* (collection of Muhammad's sayings and practices, also known as *Hadith*), *ijma'* (consensus of the community and/or the scholars), and *qias* (analogy). For the Shi'a, apart from the *Qur'an*, they have a distinct body of *hadith*, either generated from the leaders of its early community or variants from that of the Sunni. The Shi'a holds to the authority based on the individual, known as Imam. Designated by Muhammad, Ali was claimed as the first Shi'ite Imam. The Imam was designated a spiritual position, making the later Imams unable to seize power. He is to guide his followers by explaining and clarifying the divine law and spiritual path of Islam. There is a procedure for designating the Imam, not through the process of battle.[27] The Shi'a stress the religious functions of the Caliphs and their political involvement while the Sunnis are inclined to limit their religious role and to be more politically tolerant. As the split grew, each group developed its separate vision of Islam, forming distinct religious bodies within the Muslim community. The Shi'a and the Sunni believe in the same *Qur'an*, but differ in interpretation. These religious identities not only split the Shi'a from the Sunni, but within Shi'a itself, variant groups emerged.[28] The Sunnis

[25] Ibid., Lapidus, 47.

[26] Ibid., Sachiko Murata and William C. Chittick, 30-31.

[27] Ibid., Rippin, 116.

[28] Ibid., 114.

comprise approximately 90% of the total adherents to Islam. The Shi'a is mainly concentrated in Iran, Iraq, Yemen, and part of Syria, Turkey, and central Asia. In between these sects many Muslims follow Sufism, which is a mystical strain of Islam that reflects the need to realize in their personal experience the living presence of God.[29]

Despite the split, the expansion of Islam continued through Arab and Turkish conquests beyond the non-Arabs and Middle East region to Europe, Central Asia, Balkans, South and South East Asia. With the collapse of the larger Muslim empires of the Umayyad, the Abbasid, the Indian Mughal, and the Turkish Ottoman, there were already worldwide diffusions of Islam by the formation of new states, communal, and religious institutions.[30] There are weaknesses in the Caliphate versions of Islamic diffusion. Since the Caliphs only inherited religious authority and political leaderships, they did not follow Muhammad's prophethood. Apart from the Caliphs, the *Qur'an* is available to every believer. The Caliphs did not have the authority from which Muslim religious conceptions and practices were derived. Furthermore, the politicization of the Caliph regimes created severe tensions between its religious and political needs.[31] For example, the Umayyad dynasty provoked the Shi'a and the Yemeni Arabs opposition in the name of religious principles, while the Abbasids' attempted to strengthen the state and to give the ruler a ceremonial duty that bordered on divinity provoked rebellion and distrust. In this situation, a new and autonomous religious elite emerged—the *qurra'* (readers of Qur'an), the *ulama'* (religious scholars), and the Sufis (the ascetics)—to become the custodian of the *Qur'an* and the teachings of Muhammad.

C. THE ARRIVAL OF ISLAM IN MALAYSIA

The coming of Islam to the Malay Archipelago was slightly different from other parts of the world. Islam's entry into the Malay world was passive and gentle. The origin and evolution of Islam in Malaysia bring us back to the 9th century when the presence of Muslim communities was scattered throughout the Malay-Indonesian archipelago.[32] In this region, Islam was not established by (1) conquest through the imposition of a single

[29] Ibid., Mohamed Osman, 10.

[30] Ibid., Ira M. Lapidus, 199.

[31] Ibid., 81.

[32] Ibid., S. Ahmad Hussein, "Muslim Politics in Malaysia."

centralized state; (2) the settlement of a substantial Muslims population; or (3) massive social change. Islam was rather established through diffusion of Muslim merchants and missionaries who founded small communities, and sometime induced local elites interested in state formation, trade, and political legitimization to accept their religion.[33]

At the end of 13th century, merchants and Sufis formally introduced Islam into Indonesia from India, Arabia, and perhaps China. It appealed to the rulers of small coastal and riverside principalities who had trading contacts with the Muslims and intense rivalries with Indonesian and Chinese traders. Acceptance of Islam by local merchant princes won them social and administrative support to enter the trading networks. As a result, Indonesian state and elite culture was shaped, not by aristocracy coming from the Middle East, but by the local elite, which preserved its political continuity, and adopted Islam as an additional expression of its earlier legitimacy.[34] Throughout Indonesia and Malaya, Islam was integrated into popular culture. Sufi missionaries and village teachers settled widely and made Islam part of folk culture and identity. In Southeast Asia, as opposed to India and the Balkans, where it reached only the minority, Islam became the religion of majority of the population in Indonesia and Malaysia.

In Malaya, Islam first arrived through the peaceful penetration of the princely courts by Indian and Arab traders, with first recorded conversion in the early 14th century.[35] Then in 1414, Muhammad Iskander Shah, a Hindu prince from Sumatra, Indonesia who founded Malacca [later to become one of the 13 states in Malaysia], was reportedly converted, leading to the spread of Islam through the peninsula. He started the Malacca Sultanate, which evolved into various other Muslim Malay Sultanates in Malaya. The power of Malacca made the acceptance of Islam politically and economically desirable, and the conversion of the general population followed through state sponsorship and individual missionary activity of the Sufi.[36] The official acceptance of Islam by the palace helped promote its acceptance by the subject classes. The Sufis successfully spread Islam as they realized that the Malay people, who had long been

[33] Ibid., Ira M. Lapidus, 203.

[34] Ibid.

[35] Fred R. Von Der Mehden, "Malaysia: Islam and Multiethnic Polities," in John L. Esposito, eds., *Islam in Asia: Religion, Politics, & Society* (New York: Oxford University Press, 1987), 178.

[36] Farish A. Noor, "The Other Malaysia," *Malaysia Kini*, No. 11, November 2000.

oppressed by their rulers, were ready for change. The Sufis understood that the Malays would never abandon their way of life for another that was equally, if not more oppressive, than the one before.

Through the influence of monarchs and the institution of marital alliances, and supported by the feudal social environment, Islam faced few obstacles in penetrating the Malay society.[37] By the time the Portuguese captured Malacca in 1511, Islam had already established a strong foothold among the Malay masses. The struggle against the Dutch and Portuguese made Islam desirable as a bond of solidarity in resistance to the efforts of Christian powers to establish trading monopolies. In Malaya, Islam was thus established in a relatively isolated environment from the influence of the Islamic theological learning centers in the Middle East. Initially individuals lacking religious sophistication, a condition that lasted into the 20th century, fostered it.

D. THE MALAY ISLAM

The interactive relationship between religion and ethnicity of most Malays is one of the major forces in explaining the role of Islam. The Malay is identified with Islam. To become Malay and to become Muslim is inseparable while the Malaysian Constitution states, "Malay means a person who professes the Muslim religion, habitually speaks the Malay language, conforms to Malay custom."[38]

The Malays inhabit the Malay Peninsula and portions of the adjacent Islands of Southeast Asia, including the east coast of Sumatra, the coasts of Borneo, and small islands between these areas. The home of the Malays was traced to the northwestern part of Yunan, in China. The present-day Malays are described as the descendants of the tribal Deutero-Malays mixed with modern Indian, Thai, Arab and Chinese. There has been a strong external influence on the Malay culture, particularly from the Siamese, Javanese, Sumatran and Indian. Hinduism from India also influenced the Malays before they embraced Islam.[39]

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[37] Ibid., S. Ahmad Hussein.

[38] Ibid., Fred R. Von Der Mehden, 179.

[39] Sabri Zain, "Golden Chersonese: The First Malay Kingdoms." Database on-line. Available from *Sejarah Melayu: A History of the Malay Peninsula*. http://www.sabrizain.demon.co.uk/malaya/malays.htm. Accessed 15 July 2003.

There are peculiar characteristics of the Malay Islam. A Malay man is generally kind and his manners are polite. He is courageous and trustworthy in discharging certain undertakings. He is conservative to a certain degree, proud and fond of his country and his people. He respects his ancient customs and traditions, fears his Rajas, and has a proper respect for constituted authority. Hospitality is a sacred duty fulfilled by all social status alike. His spirit of the clan is also strong in him and willing to follow orders of his leaders blindly. To a certain degree, however, he is lazy and will look doubtful on all innovations. Pertaining to religion, the Malay is considered Islam by profession and would defend his faith. He is not an extremist and his tolerance compares favorably to that of a professing Christian and he is often studious and learns to read the *Qur'an* in a language he does not understand.[40]

The Malays, including their rulers, are not absent from self-criticism. Munshi Abdullah, a Malay writer and critic during the British rule observe, "the Malay has not become intelligent, but rather more stupid. The main reason was inhumanity and repressive tyranny of the Malay rulers towards their subjects. They are not industrious, intelligence and educated. The rulers make no attempt to protect their subjects, only themselves, far less to educate them. The other reason was the rulers' inability to educate their children in humanities or courteous behavior. Ordinary Malay folk cannot lift up their heads and enjoy themselves and they do not show any originality for the rulers forbid. They are unable to change or modernize their ideas or to produce anything new. They copy forever the customs of their ancestors.[41]

In modern Malaysia, such a dilemma still exists. As reflected by Prime Minister Mahathir, though the Malays currently are much better than Abdullah's description, the label of "lazy Malay" is still relevant.[42] Mahathir has even made drastic constitutional changes that will slowly erode the whims of the rajas.

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[40] Frank Swettenham, "The Real Malay." Database on-line. http://www.sabrizain.demon.co.uk/malaya/malays2.htm. Accessed 15 July 2003.

[41] Munshi Abdullah, "The Malay Dilemma." Database on-line. http://www.sabrizain.demon.co.uk/malaya/malays3.htm. Accessed 15 July 2003.

[42] See for example Donald R. Snograss, *Inequality and Economic Development in Malaysia* (Kuala Lumpur: Oxford University Press, 1980), 30; "Mahathir Calls Malays Lazy," *The Dawn Internet Edition*, 20 July 2001. Database on-line. http://www.dawn.com/2001/07/20/int6.htm. Accessed 20 October 2003.

In discussing Malay religious beliefs, the unity of ethnicity and religion offers some peculiarity.[43] First, while Arab Muslims have emphasized the concept of *umma* as a universal element of Islam, the rural Malays, though proud to be part of the *umma*, reflect a narrow-minded and ethno religious nationalism. Not well acquainted with members of world religion, traditional Malay identity has been defined in terms of more specific contexts – family, village, state, Malay people (*Bangsa Melayu*), and perhaps the past rulers. Therefore, it is unlikely for the Malay to seek ready models for local solutions based on the context of issues elsewhere in the Muslim world. Second, the Malay-Islam identity has provided an obstacle to Islamic unity within Malaysia. The Arabs, Indonesians, Indians, and Pakistanis have been legally, to a limited degree, socially incorporated into the indigenous community. The Chinese Islam, which is more distinct in identity and culture, is not fully accepted by many Malays. Third, there is an integrated system that has led to the perceptions among the Malays that includes lifestyle, values, language, and religion. An attack on one part of this system is viewed as endangering the whole system. Secular education, westernization and modernization are perceived to be challenges to religion and ethnic foundations. Endangered by the non-Muslims ethnic, ethno religious unity became the political tool for Malay politicians to unite the community. Defecting from the Malay party was seen as weakening Islam while economic policies to develop the Malay were the means to strengthen it. The formalization of Malay as the national language and its usage in state sponsored schools has reinforced the Malay role. However, recently the government reintroduced English to teach mathematics and science subjects because school children and university graduates have been losing their ability to use the English language.

E. MALAY ISLAMIC BELIEFS AND PRACTICES

Malay Muslims are Sunnis, with strong influences from Sufi, Hindu, and animistic sources.[44] In rural areas, Malay Islamic beliefs and practices are conservative and ritualistic. Urban Muslims who are educated and received better religious training are more likely to display the religious patterns of orthodox Islam. Rural Malays are influenced by individual expectations of the strong impact of fate and luck on their

[43] Ibid., Fred R. Von Der Mehden, 180.

[44] Ibid., Fred R. Von Der Mehden, 180.

personal success or failure, and community norms within which they are expected to act. These are important guidelines in defining their places in the world. Although they accept the "Pillars of Islam"—believe in the unity of God, prayer, fasting, pilgrimage, and tithing—and as part of the world Muslim community, they are also deeply influenced by a set of primarily non-Islamic beliefs, a folk Islam that combines Islamic elements with animist and Hindu influences. They also have incorporated a variety of spirit life into their religious beliefs that are necessary for certain ceremonies. However, there has been some decline in these traditional beliefs as advised by the religious leaders, who in turn are influenced by Islamic modernism, the process of education, modernization and urbanization.

F. ISLAM, ETHNICITY, AND MALAY POLITICS

Apart from Malay-Islam identification, the plural nature of Malaysia is another major force in explaining the role of Islam. Generally with little exception, ethnicity has historically correlated with geography, occupation, economic status, and religion. The Chinese and quite a large number of Indians have controlled local commercial and professional activities. The Malays were involved in small-scale agriculture and higher administrative posts, while the Indians were generally plantation workers. The Chinese were concentrated in urban areas, the greater number of Malays lived outside the cities whereas the Indians are usually found in the cities and on plantations. This relationship has led to the disparity of income between the Chinese and Malays. The government has reacted by trying to raise the economic conditions of the poorer Malays. Only a small number of Chinese and Indians have converted to Islam, as the majority maintains the traditions they brought with them from China and India.

Historically, such environments exist because of the British and Dutch colonial policies. The Malay sultans were allowed to retain responsibility over the religion and did not encourage the Malays to enter the modern commercial world. Increased mining and plantation activities demanded more manpower, so the Chinese and the Indians were brought to Malaysia. Gradually, the number of non-Muslims increased and reached almost 3.5 million at the time of independence in 1957.[45] The immigrants of Taoist, Confucian, Buddhist, and Hindu religion also changed the society's religion complexion.

[45] Ibid., Fred R. Von Der Mehden, 178.

The Arabs, Indians, and Pakistanis minority who are involved in commerce and religious activities contribute to the Muslim population. After independence, the Malay-Muslims comprised half of the total population. When Sabah and Sarawak joined the Malay Federation in 1963, the Muslim populations were further diluted. In 1960, Sabah had 37.9% Muslims and Sarawak only 23.4%.[46] Efforts were made by the state government to convert non-Muslims in Sabah with a number of successful conversions. Even though Muslims become the largest group and dominated the political life of the whole Malaysia, they are now slightly more than half of the total population.

Events relating to colonization, influxes of Chinese and Indian immigrants and improved communications have stimulated Malay-Islamic awareness. The pluralistic Malaysian society, which diffuses politics, economics, and religion, has made communal relationships more difficult. The heterogeneous environment, which differs from that typically found in the Middle East, has led the society to opt for some form of accommodation. Moreover, the increasing number of non-Muslims has challenged Malay traditions and values that made the Malays more conscious of their ethno religious identity and divisions within the Malaysian community. The poor, rural, and non-commercial Malays who perceived Islam as being endangered have also fostered a sense of defensiveness that has been the foundation for Malay-sponsored politics, public policy, and attitudes.[47]

There has been an important account related to Malay politics. After the Japanese rule in Malaya, the British returned with a scheme to form the "Malayan Union," which proposed placing all nine Malay states as well as Penang and Malacca under one government with Singapore as a separate state. The Malays strongly opposed the scheme, which was perceived as a British ploy to abolish the Malay Sultanates and to provide citizenship with equal political rights to all Malayans, irrespective of race.[48] In May

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[46] Ibid., 179.

[47] Ibid.

[48] Gomez and Jomo K. Sundaram, *Malaysia's Political Economy* (Cambridge: University of Cambridge Press, 1999), 11.

1946, the Malays formed the political party called the United Malays National Organization (UMNO) whose purpose was to object to the formation of the Malayan Union, and consequently the Union was abandoned.

By 1948 the British had decided to grant independence to the Federation of Malaya and worked to find a consensus among the various ethnic groups. The negotiations resulted in a compromise; the Malays retained political power, and in exchange, the Chinese were allowed to continue their economic functions with the understanding that in time, more economic and political equality would be achieved among the races. A social contract stipulated that the immigrants were accepted as citizens and had the right to participate in the political process. The immigrants agreed to the use of the Malay language, acknowledged special privileges for the Malays and the need for the Malays to have broader economic participation. The essence of the "Bargain of 1957" was that the Malays made substantial concessions with respect to citizenship, while the non-Malays recognized the special rights of the Malays without any time limits.[49]

The Malays received certain benefits in response to the citizenship issue. Article 153 of the new Constitution stated that "it shall be the responsibility of the (King) to safeguard the special position of the Malays and the legitimate interests of other communities…" These included employment quotas in public services, scholarships, business permits and licenses and (in Article 89), the reservation of certain lands for the exclusive right of the Malays. Malay was designated the national language but the private use of other languages was specifically guaranteed. Thus, the Malay privileged status as the *Bumiputera* (the sons of the soil) was protected by the Constitution.[50]

The British government made a condition that independence would only be granted to a multi-ethnic leadership. Thus, a political alliance calling itself the Alliance Party, led by UMNO leader Tunku Abdul Rahman (Malaysia's first Prime Minister) was created in 1955. The Alliance was comprised of the Malay's UMNO, the Chinese's Malaysian Chinese Association (MCA) party and the Indian's Malaysian Indian Congress

[49] Ibid., Donald R. Snograss, 46.

[50] Ibid., Kamaruddin, 23.

(MIC). The Alliance also fostered inter-ethnic relationships; UMNO, which consisted of poor Malays, was heavily dependent on the wealth of MCA; while the latter needed the former to win electoral seats because the Malays comprised 80 percent of the electorate. In the opposition camp, there are political parties composed of socialist-oriented Chinese and Indian elements, which advocated greater rights for the non-Malays, and the conservative Malays, which were unhappy with the government's multiracial policies.

In May 1969, a communal riot erupted with the political campaigning for the May 10 general elections as the immediate background. The Pan-Malaysian Islamic Party (PMIP) now called PAS, a conservative Malay party, portrayed the UMNO as having betrayed Islam and selling out the Malays. The Chinese opposition, particularly the Democratic Action Party (DAP), argued that MCA as an accomplice in the destruction of the culture, political rights and economic position of the Chinese. The ruling alliance defended its arrangement by which its political elites could settle communal issues through friendly bargaining.[51]

After the riot, the power-sharing concept of Alliance was expanded to accommodate a larger coalition named the National Front (led by the second Prime Minister Tun Abdul Razak), consisting of ten other mostly non-Malay based parties. In West Malaysia, UMNO, MCA, MIC and the Chinese Gerakan Party represented the three major ethnic groups and an Indian based political party with a few Malay supporters. Two East Malaysia based parties represented the interests of non-Muslim *Bumiputeras* from Sabah and Sarawak. The Malays could have ruled Malaysia alone as a Malay coalition government with UMNO and PAS having the majority seats in the Parliament. However, despite different interests, the Malay UMNO respected the social contract for independence and the three major races cooperated to share the ruling political power. Chinese and Indian political leaders were given prominent ministries to lead. On the other hand, Malay-Muslim prime ministers, deputy prime ministers, and home ministers have always led the ruling coalition.

The government, in order to ease the communal issues, implemented drastic political and economic actions. A "national ideology" was defined to promote a wider

51 Ibid., Kamaruddin.

consensus called *Rukunegara*. *Rukunegara* calls for unity, a democratic way of life and a just society based on cultural liberalism and equitable sharing of wealth. Malay political power was consolidated, and an amendment to the constitution was introduced making it an offence to conduct any public discussions, including in parliament, of issues considered sensitive in multi-racial Malaysia.[52] In the economic field, blaming the ethnic disunity on Malay economic backwardness, the government announced the New Economic Policy (NEP) from 1970 to 1990. The NEP was designed to eradicate poverty and to restructure society so that the identification of race with economic function is reduced and eventually eliminated. The NEP also called for a more balanced ethnic pattern in the ownership of assets in all sectors of the economy and the creation of a Malay commercial and industrial community. The "indigenous economic nationalism" of the NEP identified for stricter regulation of the largely non-Malay controlled private sector and for active state participation on behalf of the Malays. The plan's most specific commitment was that "within 20 years, Malays and other indigenous people will manage and own at least 30% of the total commercial and industrial activities in all categories and scales of operations."[53] Malaysia's approach is less democratic that discriminated massively in favor of the ethnic Malays in education and state employment, but it has created favorable economic conditions for Chinese owned private enterprise.[54] The NEP had successfully addressed one of the most critical political problems faced by the UMNO in its competition with PAS. UMNO could no longer be accused of neglecting Malay economic development.

G. POST-INDEPENDENCE ISSUES OF MALAY-ISLAM

The role of Islam in Malaysia can be better understood by discussing the interactions among the country's political parties and issues within the Islamic community itself. Politico religious, education, and religious law have been central national issues since independence. The issue of religion has necessitated religious bonds

[52] These relate particularly to four constitutional provisions—equal citizenship, special privileges for the Malays (related to selected economic and educational opportunities) and the legitimate interests of the other communities, Malay as the national language, and the position and prerogatives of the Malay rulers. They formed an integral part of the communal compromise struck on the eve of independence, and their unmitigated questioning by communal opposition parties of both extremes in the 1969 elections was seen as a major cause of the May 13 incident.

[53] Ibid., Snograss, 58.

[54] Jack Snyder, "Nationalism and Democracy in the Developing World," *From Voting to Violence* (Washington: Norton and Company, Inc. 2000).

of the coalition leadership, which must balance the rights and privileges of the secular nature of a pluralistic society and the Malay-Muslim constituency.[55] Too much emphasis on the Malay-Muslim relationship would endanger the pluralistic coalition and ethnic stability. On the other hand, the loyalty of the Malay constituency is dependent upon the fear of encroachment by other races. The government [UMNO] backbenchers, youth organizations and local traditional leadership have pressured their leaders to increase the role of Islam and to advance Islamic goals in Malaysian society. The UMNO must consider PAS's pursuant of fundamentalist policy that can influence UMNO's voters to defect if Malay interests were not given sufficient attention. Increased emphasis on religion and ethnicity has become more central to Malaysian politics than in the past.

On politico-religious ground, contemporary events in Malaysia have worsened the differences within the Muslim community, which is divided into the radicals, traditionalists, fundamentalists, and accommodationists. The radicals consist of small elements that have demanded basic changes in the relationship between Islam and Malaysian society. Their actions were widely publicized because of their violent acts and the government's need to portray the dangers of extremism.[56] Some of the most well known examples of radical activities were the destruction of Hindu temples, attacks on police stations, armed heists, bloody confrontations with police forces, and the emergence of militant groups. The most recent groups identified are Al-Maunah, Malaysian Mujahideen, and members of Jema'ah Islamiah. The radicals have received little support and are condemned by all other major Muslim groups.

The traditionalists are the bulk of the Malay rural community and became the heart of Malay-Islam. They seek a traditional pattern of life, but are strong supporters of a wider Islamic role in Malaysian government and society. Politically they are divided into UMNO and PAS, as they comprise much of the membership of these parties. The contest between them is over the issue of economic differences within the local Malay communities. It appears to focus on personality and driven with charges against opponents for being "un-Islamic," "infidels" and stresses communal issues.[57] PAS has

[55] Ibid., Fred R. Von Der Mehden, 183.

[56] Ibid., Fred R. Von Der Mehden, 184.

[57] Ibid., 185.

become significant in pursuing Islamic discourse and pledged itself to struggle for Islamic state and society. PAS has staked its political fortune on a distinctive Islamic label. UMNO's response was through a combination of argument, authority and increased attention to its version of Islamic development. UMNO recently declared Malaysia an Islamic state but without endorsing the concept formally in the constitution. UMNO has an immense legitimacy as the party responsible for independence. UMNO's track record for economic and political stability continue to lend credence to its claim to being the "moderator" for a nation, faced with deep ethnic cleavages as well as the "protector" of the economically backward Malays. UMNO played up the themes of nation-building, inter-ethnic tolerance, development, national solidarity and modernization as opposed to PAS's picture, which represents racial chauvinism, religious extremism and anti-progress.[58]

The fundamentalists or revivalists are those who actively seek to expand the role of Islam in Malaysian economic, religious, and political life. They seek to make Muslims more conscious of their faith by using education, forums, media, and other non-violent means to demonstrate that Islam is more than ritual and practice. The most influential exponent was the leader of the Islamic Youth Organization (ABIM), Anwar Ibrahim, who later joined Mahathir's cabinet. Anwar emphasized equity, pluralism, and social welfare and sought a greater role for Islam in the state and strengthening the religious consciousness without depriving the non-Muslims. Disagreeing with Anwar, other fundamentalists want to see non-Muslim educated in and converted in order to achieve a total Islamic society.[59] The core of this movement comes from educated young Malays who have come into contact with the west and increasingly inhabit urban areas.

The Malay politicians at the national level have publicly promoted an accommodationist approach. They emphasize the necessity of a multiracial and multi-religious society, which is free from government interference. Preceding the 1969 riot, these leaders held almost all secularist positions in which religion was considered secondary in favor of pluralism. The first two Prime ministers, Tunku Abdul Rahman and Tun Abdul Razak, were considered comfortable with a less sectarian environment. The

58 Ibid., Ahmad Hussein, 18.

59 Ibid., Fred R. Von Der Mehden, 185.

next two Prime ministers, Hussein Onn and Dr. Mahathir, both proclaimed a multi-religious Malaysia, but eventually put greater emphasis on Islamic values over secular rhetoric.[60] Secularists, who believe in the absence of religion from the state, are not a major force within the Malay community.

H. ISLAMIC INSTITUTIONS AND LAW

From politico religious issues, we turn to the role of religious institutions and laws in regulating Malaysian Muslims. According to history, Malaysian Islamic law has been a local rather than a national matter. Under the British rule, the official Islamic tradition began to take an institutionalized form headed by the sultans and backed by the colonial state as well as by a distinct official *ulama* class and bureaucratic apparatus. The Malay sultans agreed to receive a British Resident as advisor in all administrative matters, except those touching Malay Religion and Custom. State and religion were effectively separated. (Islam was never totally separated from governance, as all aspects of political life involved a religious significance.)

The Malay sultans were accepted as the defender of Islamic religion and culture. Within their jurisdiction, an Islamic court system was established. Each state had the Head *Kadi* (religious magistrate) to administer the Islamic justice. The Council of Religion (*Majlis Agama Islam*), is directly responsible to the sultan, was established, and under it, there is a Department of Religious Affairs (*Jabatan Hal Ehwal Agama*). Council members were appointed by the sultan and were mainly from the aristocratic class. *Muftis*, *kadis*, and other religious officials were also formally appointed. A *shari'a* committee was established and served as the only legitimate source of *fatwa* (legal opinion) and whose rulings were binding over all Muslim residents in the state. It was a key constituent of the *Majlis* and an important institution of religious control. Backed by *shari'a* courts with some powers to prosecute, the *Majlis* took charge of Muslim personal and family affairs—marriages and divorces, religious endowments and trusts, religious tithes, missionary work, religious education and the enforcement of a limited code of moral conduct. The *Majlis* also took charge of mosques, burial grounds and religious education. An *ulama* class of official Islam was born, appointed and salaried by the state

[60] Ibid., 186.

to become a huge and complex religious apparatus of dominant Islam.[61] Although *shari'a* was made an important basis of law, customary laws and the orders of the sultans still applied in many cases.

After independence, there were many changes in the roles of Islam. The Islamic courts expanded their jurisdiction and punishment while at the federal level, the Council of Rulers attempted to cooperate on national religious matters. In the federal system, the primary responsibility for religious affairs rests at the state level. As the roles of states and sultans as protector of Islam increased, two problems arose: conflicts between the sultans and the federal authorities over jurisdiction and lack of uniformity in religious laws.[62] The Federal government engaged itself in Islamic issues such as conversion, religious education, international cooperation, banking and economics, the hajj, support for religious schools and institutions. Regarding law, there are inconsistencies in procedures and sanctions across states although efforts have been made to develop some uniformity. Historically, Malay Muslims have emphasized the importance of ritual, and these laws reflect such religious obedience.

There are some controversial issues concerning the non-Muslims.[63] As the Constitution gave advantages to the states by prohibiting the conversion of Muslims, other religious leaders perceived that efforts to propagate their beliefs to non-Muslims have been restricted and the government has been used for conversion to Islam. Religious programs, advertisements, or news stories has largely been closed by the media to other faiths. Materials that are detrimental to Muslims were closely monitored. Nonetheless, there are growing numbers of apostasy conversions that have not been recognized by the religious authority and were rarely publicized. A massive effort to propagate Islam, which is arguably the faith of slightly more than half of the population, has created uneasiness with other religions.

Based on the Constitution, Islam is the official religion and it lies within the state structure. However, Islam is not reflected in the national character of the state, except at the symbolic and ritualistic levels. Malay leaders were generally impressed above all by

[61] Ibid., Ahmad Hussein, 17.

[62] Ibid., Fred R. Von Der Mehden, 190.

[63] Ibid.

Western traditions of a secular state. With constitutional limitations placed on its jurisdiction, Islam remained largely "ceremonial," confined to personal and family laws, charities, religious tithes, propagation and mosque administration. However, these too were subject to federal laws, which limit the scope and application of state laws. First Prime Minister Tunku Abdul Rahman made the ceremonial function of Islam clear: "This country is not an Islamic state; we merely provide that Islam shall be the official religion of the state."[64] There has been repeated debate whether Malaysia should become or already is an Islamic state. For many years, PAS and UMNO have called for some form of Islamic state. Beyond the teaching of *Qur'an* and *shari'a*, there have been vague perceptions on the envisioned Islamic state. However, only PAS and ABIM have presented more specific terms of such a state, yet it was not defined specifically. Pressured from within and without the National Front, the government continues to guarantee religious freedom while partly meeting the Islamic demand. The prime minister argues that Malaysia is already an Islamic state and gives unstated approval to such a vague concept of Islamic rule. This strategy has been used to advance a well-defined constitution amendment for an Islamic state, but such actions are perceived to increase the role of Islam in Malaysia.

I. ISLAMIC EDUCATION

Finally, we will discuss Islamic education. The Malay education is a complex interaction between expanding secular training and increased government efforts to advance Islam in the schools.[65] During British rule, Malay Muslim education was not given priority by the state or national governments, except for the aristocracy, and was left to local efforts. Seeing this as a stable Malay norm, the British did not want to interfere though they were prepared to eradicate illiteracy. For the Malays, they were unsure of the benefits of education to their children; the boys are needed in the fields while to the girls, it was largely unnecessary. The existing Malay schools were of low quality. Usually, English-medium schools were taught by non-Malays and were unsympathetic of Malay-Muslims values. For the religious education, at the age of six or seven, the Malays received initial training from local teachers to read and to memorize

64 Ibid., Fred R. Von Der Mehden, 120.

65 Ibid.

the *Qur'an*. Further Islamic education came from state-sponsored elementary and religious schools under the jurisdiction of the *Majlis* that combined religious and secular training. There are the traditional institutions of Islamic instruction as well as more formal religious schools, called *madrasah*, which are administered by private groups, including those preparing students for further education in the Middle East, Indonesia and Pakistan.[66]

With the expansion of education after independence, budgets for education given priority to the Malay education system and to foster Malay as the national language. A primarily secular education for both sexes reaches over 90% of the school age population.[67] By law, if there are 15 or more Muslims students in a school, the government must employ a Muslim religious teacher and the teaching in Malay must take place during school hours. At the same time, Islamic education has been extended at the tertiary level with a variety of Islamic studies. In 1983, the government established the International Islamic University with an Islamic curriculum that covers all subjects and is open to students from all countries and religions. As Islamic religious knowledge is required in the lower standards and religious studies are becoming more sophisticated, the government has placed special quotas and subsidies on the Malays to excel in sciences, business, and engineering.

J. CONCLUSION

Arab traders diffused the religion of Islam to Southeast Asia in the 13th century. Eventually, the Indian and Arab traders exposed the Malays to Islam through the peaceful penetration of the Malay sultanates. The power of the sultanates made the acceptance of Islam desirable for the general populace through state sponsored and the sufis. By the time Malaya was colonized, Islam was firmly established. During the British rule, the Chinese and Indians were imported as miners and plantation workers since the Malays were primarily government officials and peasants. This was the beginning of Malaysia's pluralistic society. Independence found the Malays, Chinese, and Indians in widely differing positions. The Malays were identified as Sunni-Muslims and live mostly in rural areas. Economically, the Chinese were stronger in terms of wealth and determination to

66 Ibid., Ahmad Hussein, 12.

67 Ibid., Fred R. Von Der Mehden, 192.

adapt to a new environment. However, in politics, the Malays seized the initiative, based on historical advantage of legitimacy that gives them a constitutional victory. The Chinese and Indians had to grab whatever chance they had for a major political say in post-war Malaya. By joining Malaya, the "Bargain of 1957" gave them citizenship.

Malaysia remains a pluralist state with a multiethnic leadership headed by the Malay UMNO elites. Ethnicity and religion are intertwined in Malaysian society. Non-Muslims population can practice their religion freely. However, it is a state that has placed Islam as the official religion, given the highest priority to uniting Muslims, all the prime ministers were Muslims and the *Rukunegara* requires sacred duty of a citizen to uphold the constitution that guarantees the special rights of the Malays and the sultans. There is an increasing sense of Malay-Islam identity; although the traditional Islamic beliefs and practices have been slowly weakened by better education. The UMNO elites have envisioned developing Islam to a state that goes beyond ritual. By giving up the traditional and politically stable ritual for a more socially involved faith, Islam may become more fragmented as UMNO and PAS competes to champion Islam. The National Front leaders, however, will maintain its position as the sole protector of Malay-Islam.

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III. ISLAM AND GOVERNANCE IN MALAYSIA

A. INTRODUCTION

From the crystallization of Islam as a politico-religious institution in Medina since the 7th century, Islam was peacefully introduced to Malaya in the 15th century. Islam eventually became the official religion of the Malay states, and significantly guarantees its existence as long as the Malay-Muslims remain politically dominant. To administer the state with political and economic stability, Malaysia has looked to the west though they were seen as its enemy. Since 1981, Malaysia has adopted a "Look East Policy," viewing Japan and South Korea as industrial models.[68] The crucial question is whether Islam should serve as the guiding principle or as a rule of life where *Shari'a* is implementated through the Constitution. Malay-Muslim leaders or intellectuals, therefore must understand what Islam is before the decision is made on what role Islam must play in their modern state. If it is a personal faith, piety, and devotion, then Islam has no role in the public life of a modern Muslim state. But if Islam is both a system of beliefs and practices and law of the Muslims *umma*, then it is relevant to the modern Muslim state.

Modernist Muslims such as Rashid Rida and Ali Abd al-Raziq have adopted the concept of the Islamic and Muslim state from Ibn Khaldun who makes a distinction between *Khalifa* (the state based on the *Shari'a*) and the Islamic *mulk* (the state with a mixed constitution, based on *Shari'a* and on the political laws of the rulers).[69] These writings have influenced the Muslims' discussion between those who want to build a modern state under the guidance of Islamic ideals and those who prefer an Islamic state. Pakistan is a good example because this conflict has agitated their leaders and intellectuals strongly.

However, western domination of the Muslim world has forced a division of opinion among modern Muslims and a consequent different in their attitudes toward Islam. The Islamic classical concept of religious and political unity has been threatened

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[68] See for example, Dr. Mahathir bin Mohamad, "Look East Policy: The Challenges for Japan in a Globalized World," speech at the *Seminar for the 20th Anniversary of the Look East Policy in Japan*. Database on-line. http://www.mofa.go.jp/region/asia-paci/malaysia/pmv0212/speech.html. Accessed 7 September 2003.

[69] Erwin I. J. Rosenthal, *Islam in the Modern National State* (Cambridge: Cambridge University Press, 1965).

by the notion of the separation of religion and politics. Like Pakistan, Malaysia was under British rule and domination, but its transition to independence was smooth and Islam became a struggling issue in the constitution. The separation of state and religion is clearly defined in the Constitution.[70] Arguably, Malaysia is definitively a Muslim state, but not an Islamic state,[71] though Malaysian leaders claim it is already an Islamic state. Nonetheless, the crucial issue in defining the political future in Malaysia—and in many Muslim countries—lies on the relationship between the forces of Islamic resurgence and democratic governance.

In this chapter, I briefly review "Islamic thought"[72] that encompasses the aspects of religion and politics. Following the earlier discussion on Islamic law, which is comprises of four roots or principles—the *Qur'an*, *sunna*, *qiyas* (analogy), and *ijma'* (consensus), I will note that Islamic law will finally fall into two broad relationships between God and humankind (*ibadat*) and between one human being and another (*mu'amalat*).[73] I will then relate these concepts to Islam and governance in Malaysia. As experience and history suggests, the development of Muslim *umma* have indicated that "Muslims did not always agree with their rulers and thus there are many concepts and teachings that apply to many different contexts for opposition."[74] In the Malaysian case, though the Malays are predominantly Sunnis, there are diverse interpretations of Islam and political views, which brought certain foundations for Islamic perceptions of democracy and accommodating policies that are politically and economically viable.

B. ISLAMIC POLITICAL FRAMEWORK

Islam claims that it is not only a religion, but is a **complete way of life. It also claims to be the final version of the monotheistic religion.** Islamic guidelines affect many different aspects of human lives, as evidenced in the *Qur'an* and *Sunna*, which describes how Muslims should engage in politics and economics. Islam has a rule not

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[70] Ibid., Erwin I. J. Rosenthal, 288.

[71] Ibid., xiii.

[72] "Islamic Thought" includes all scholarly and educational endeavors, which recognize any aspect of the core and truth of Islam; it also includes all personal imaginations of the scholars, whether these imaginings are sound or shallow, true or false. The outcome of all these studies, which is represented in articles, lectures, or debates can all be called, though variant, "Islamic Thought."

[73] David Waines, *An Introduction to Islam* (New York: Cambridge University Press, 1995), 65-69.

[74] John L. Esposito and John O. Voll, *Islam and Democracy* (New York: Oxford University Press, 1996), 40.

only for the slightest problems of life, but also for society and economic theory as part of the social organization. Islam gives detailed regulations in economics, which are balanced and fair. According to Oliver Roy, the *Qur'an* explicitly introduces the terms, *shura* (advisory council), *hizb* (party), *Tawhid* (Oneness), *Mustadaf* (oppressed), *umma*, and *Jahiliyya* (ignorance), which are interpreted in a modern political context as democracy, political parties, a classless society and the like.[75] The principles of Islam were aimed at establishing a just society wherein everyone would behave responsibly and honestly, and would create a system based on social justice.

Muslim scholars and thinkers, however, have perceived Islamic political system differently. According to Abu al-A'la Maududi, the system is based on the principles of *Tawheed* (Oness of God), *Risalat* (Prophet Hood), and *Khilafat* (Caliphate).[76] The principle of *Tawheed* makes the concept of legal and political sovereignty of human beings meaningless as God is the sole ruler and his commandments constitute the Islamic law. *Risalat* is the medium through which the law of God is received; the *Qur'an* and authoritative interpretation and exemplification of the *Qur'an* by the prophet, or *sunna*, as the representative of God. The combination of these sources, the broad principles of Islamic life was derived, which is called *Shari'a*. *Khilafat* means representation, where man is the representative of God on earth. God delegated His power to him and within the prescribed limits; he is required to exercise His authority. Therefore, any state that is established based on this political theory, is a caliphate. In modern terms, he could be interpreted as a leader who is obligated to advance the will of God. No individual or dynasty or class can be *Khalifa*. His authority is bestowed on "any community as a whole" and each individual shares the role as a representation who subscribes to *Tawheed* and *Risalat*. Presented in a different format, Sheikh Taha states that "Islam is not too concern about building a state. Islam, from the beginning, was working to build an *umma* and there is a vast difference between building an *umma* and building a state. Building an *umma* means you have certain concepts and values. The *umma* is based on three main values: *Tawheed*, *Tazkiy'ah* (purification of the human being), and *Imr'an* (building a

75 Oliver Roy translated by Carol Volk, *The Failure of Political Islam* (Cambridge, Massachusetts: Harvard University Press, 1994), 39 in Muhammad Osman, "Islam and Democracy: Reflecting the Experience of Malaysia and Indonesia," (Masters thesis, Naval Post Graduate School, March 2002), 11.

76 Ibid., Muhammad Osman, 3.

civilization with values). These three values are considered as the main goals of Islam (*maqasid al-sharia*) producing a strong *umma*. Whereas a nation is built around a piece of land, and not values."[77]

C. ISLAMIC GUIDING PRINCIPLES

Islamic has indicated some guiding principles in relation to statecraft and governance. The caliphates must face and adapt the aspects of ethics, moderation, welfare (*maslahah*), dominant and dissenting traditions, and building-consensus in governing the society. In defining ethics, Manzoor states that in Islam, ethics cannot be separated from law. Ethics and law are resolved in the action of *Shari`a*. Islamic societal ethics is the very basis of a balanced society, between God, nature and history, which require submitting oneself to the will of God, accepting the mandate of trusteeship, and striving to be a moderate community. The goal of justice is reached by treading the path of moderation. The moderation of Islamic ethics stems from its life-affirmation stated in the *Qur'an*: "To enjoy the bounties of God's provisions but not to over-indulge." The principles of *Shari`ah* covers the concepts of general consensus, preference for the better, and public welfare, which all have moderating influences on Muslim society. The Islamic arts, the Islamic way of life, the thought and action are all good expressions of the fundamental Islamic ethic of justice and moderation. The adoption of the ethic of moderation may save Muslim societies from the problems of consumerism and the wastefulness of human and natural resources in pursuit of personal interest.[78]

The theory of *maslahah* (utility or welfare) denotes public interest or general human good. Muslim scholars, namely Al-Ghazali and Shatibi, have divided public interest into three categories: essential, complementary, and desirable.[79] Essentials interest protects religion, life, children, and property, which government needs to safeguard at any cost. The complementary and desirable interest tends to vary according

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[77] Sheikh Taha Jabir al-Alwani, "Interview with Sheikh Taha," *Muslim Democrat*, Center for the Study of Islam & Democracy, Washington DC, Vol. 4, No. 1, (Jan 2002) in Muhammad Osman, "Islam and Democracy: Reflecting the Experience of Malaysia and Indonesia," (Master's Thesis, Naval Postgraduate School, Monterey, California, March 2002).

[78] S. Parvez Manzoor, "Islamic Conceptual Framework," *IslamOnline.net*, 27 May 2003. Database on-line. http://www.islam-online.netenglish/Contemporary/2002/05/Article23.shtml. Accessed 18 June 2003.

[79] Muhammad Akram Khan, "The Role of Government in the Economy." Database on-line. Available from *Islam Online.net*, 8 August 2002. http://www.islam-online.net/english/Contemporary/2002/05/Article12.shtml. Accessed 16 June 2003.

to social and economic conditions. Government protects them only when its primary duty of protecting the essential interests has been fulfilled. The government should protect the three categories of interests because they entail human needs, but anything beyond them is wastefulness. Striving for these interests, even when it may cause harm to some individuals, is allowed if the number of beneficiaries is more than those who suffer. Seeking self-benefit is forbidden only when the harm to others is actual and not just potential. The fundamental criterion of public interest is to provide good to a larger number of people than it harms. This criterion is *Shar'ia*-oriented because the ultimate goal of the *Shari'a* is to benefit the society. [80] *Maslahah* is pertinent in economics, but it can be perceived as violating individual rights. Such examples are fixing price, expropriating private property, or increasing taxes of alcohol or tobacco products.

Muslims' behavior in social interaction can also be influenced by the dominant and dissenting traditions. According to Ahmad Hussein, scholars studying agrarian societies used to categorize tradition as great and little.[81] The great tradition represents the distinctive patterns of belief and behavior valued by society's elite. It also emphasizes political control and use of the powers and symbols of the state, and on the dominant actors who are determined to defend their authority. Small tradition applies mainly to the norms of small, homogenous peasant villages where life is governed by customs, subsistence production and an oral tradition. Dissenting tradition, on the other hand, is a tradition of organized protest, usually led by the middle and educated classes and dissatisfied men of religion—in most cases, a tradition of a counter-elite.

Both traditions exist in Islam. Each portrays itself as true and others as deviationist. In ideological terms, scholars call them dominant or official Islam, as opposed to dissenting or alternative Islam. Although both traditions share some consensus on what Islam is, they differ on key aspects of its translation. According to Ahmad Hussein, the difference between the two traditions, in the case of the late 20th century Islamic revivalism, fits the concept of tension between the forces of prudence and

[80] Ibid., Muhammad Akram Khan.

[81] Ibid., Ahmad Hussein, 6.

those of legitimacy—between a philosophical understanding of politics and a strictly legalistic one. The former was the Islam of those in authority while the latter of those challenging those in power.[82]

The contentious issue of correct interpretation of Islam has invited scholars and thinkers such as Sardar, to suggest that Islam needs to make an attempt at building a consensus or *Ijtihad* to reform Islam.[83] Sardar argues that Muslims have been comfortably relying on age-old interpretations of Islam that makes them feel uncomfortable with modernity. Muslims should not blame the west for injustices, but should realize that Islam is far from being a liberating force for equality, justice and humane values. Historic interpretation of Islam had dragged Muslims back to a history, when Islam has little relevance to their daily lives apart from rituals and worship. Muslim civilization is now so fragmented and shattered that they have to rebuild it.[84] According to Sardar, when Muslim countries impose the *Shari`a*, there are contradictions that were inherent in the formulation and evolution of *fiqh*, or jurisprudence. Imposing *Shari'a* based on historical interpretation will be out of context in modern time. As people follow it literally, Islam is reduced to a totalistic ideology, exactly like what the Islamic movements have reduced Islam to. When this ideology is placed within an Islamic state, the *Shari`a* will be at the center stage. This ideology can become an action program of a vested group, which loses its humanity like the Taliban.[85] The basic discussion on Islamic principles and contestation issues of interpretation suggest that Islam is not only a religion, but also an integrative worldview. Islamic principles are beautifully laid down, but due to existing division in interpreting Islam, Muslim societies had not received optimum benefits from these guiding principles unless proper consensus building on jurisprudence was achieved.

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[82] Ibid.

[83] *Ijtihad* can be defined as the serious effort by a jurist to infer, with a degree of probability, a religious ruling from its detailed evidence in the authentic religious sources.

[84] Ziauddin Sardar, "Rethinking Islam." Database on-line. Available from *IslamOnline.net*, 11 June 2002. http://www.islam-online.net/english/Contemporary/2002/10/Article01.shtml#1. Accessed 6 June 2003.

[85] Ibid., 4-5.

D. ISLAM AND DEMOCRACY

In the *Qur'an*, there are some verses that called for *shura* or consultations, as well as the responsibility of state and people in telling what is good, and forbidding what is wrong. These are some examples of the *Qur'an* that can be interpreted as political thoughts that are accommodative to democracy. The political philosophy, either in Islam or democracy, revolves around power and authority, legitimacy of the ruler and the right to rule over the people. Inherently, the democratic political method practiced by Muhammad falls back to his successors, the four Rightly Guided Caliphs, and other agents in the forms of legitimate rulers bonded by the *Shari'a*. Sayyid Qutb expands on that *Shari'a* means everything legislated by God for ordering man's life including the principles of belief, administration and justice, morality and human relationships, and knowledge.[86]

Islamic democracy lies on the principles of *Khilafa* while western democracy is based on the concept of popular sovereignty. To the west, people are sovereign, but to Islam, sovereignty is vested by God and the people are His caliphs or representatives. People make their own rules in the west whereas in Islam, the *Shari'a* of God given to His representatives must be followed. Western democracy works to fulfill the will of the people while in Islam the people have to fulfill the will of God.[87]

How does Islam form a government? The authority of the ruler comes from the public's will and cannot force himself over the people. He has to rule through people's participation and consultation, and those who elect him as their representative. Authority must be used to secure justice for all, without any discrimination, and oppression is strongly forbidden. For human rights, it is those that are granted by God. Unlike the rulers that can withdraw rights granted to the people, no individual or institution has the authority to withdraw the rights given by God. All Muslims and administrators have to accept, recognize, and enforce them.

There is no doubt that the *Qur'an* and the prophet [*Hadith*] had provided guidelines for societies, but neither the Qur'an nor *Hadith* is explicit on methods of

[86] Sayyid Qutb, *Milestone*, Publish by the Mother Mosque Foundation, Cedar Rapids, Iowa 52406 and printed in the United States, in Muhammad Osman, 13.

[87] Ibid., Mohamad Osman, 16.

government. Some of the early Muslim philosophers proposed political theories, but in practice it was never influential. History shows that the institutions of the time, though it was an Islamic government, were basically monarchy like the Umayyad and the Abbasid caliphates, and most Arab countries now.[88] Since the legitimacy of the kings and caliphs has appealed to Islam, they have to observe the *Shari'a*. Their legitimacy was retained as long as they did not reject *Shari'a* publicly. This means that all states are not ruled by sincere leaders, since the extend to which government heeded Islamic teachings has steadily decreased. The religion instead is used as the latest tool to those who quest power. Modern Muslim scholars have attempted to make Islam fit western democracy and are interested in establishing social harmony on the basis of *Shar'ia* and with other dimensions of the religion.

Islam also provides some insight for governing pluralist societies. In Medina, Muhammad worked to create a community based on shared religious beliefs, ceremonies, ethics, and laws that would unite groups into a new Arabian society.[89] The "Constitution of Medina" that outlined procedures for reconciliation between Muslims community in Mecca and Medina with non-Muslims was accepted by modern Muslims as guidance for pluralistic society based on Islamic traditions and revelation.[90] As Muslim *umma* of the Southeast Asia were not yet part of a unified culture or empire, Muslim leaders should observe this constitution as many Muslims including Islamic activists have called for a pluralist democracy. According to Ramage, in Malaysia and Indonesia, for example, non-governmental organizations (NGOs), mass-based organizations, women's rights advocacy groups, and even leading government figures now work to promote democratic values, human rights, a free and critical press, religious tolerance, and gender equality from an Islamic perspective.[91]

E. ISLAM AND STATE IN MALAYSIA

Through my earlier discussions, the Malaysian scenario is different from the normal development in other Islamic countries for certain reasons. I have pointed out that

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[88] Ibid., Sachiko Murata and William C. Chittick, 33.

[89] Ibid., Ira M. Lapidus, 24.

[90] Ibid., Espositi and Voll, 40.

[91] Douglas E. Ramage, "Introduction: Democratic Transitions and the Role of Islam in Asia," Asian Perspectives Series, *The Asia Foundation* (Washington D.C.: 18 October 2000), 1.

Malays are defined as being of the Muslim faith. Constitutionally (or legally), a Malay is identified with Islam. In addition, though the Malays have adhered to Islam since the 15th century, yet they are conservative, feudal and traditional. During the pre-independence days, each of the Malay States had its own Sultan, and Islam was accepted as part of statehood. In every state, the Sultan had the full prerogative to make decisions on all matters relating to the state.

During the course of independence and post-independence, Malay politics became more democratic as Myron Weiner states that the most empirically persuasive explanation for democracy in the developing world is the British colonial heritage.[92] They left behind the Westminster model of parliamentary system, a strong constitutional basis for democracy. Many ex-British colonies, such as Pakistan and Malaysia, are now Muslim countries with various degrees of democracy.

Before independence, Islam was not a factor in the political process, but it changed in a few years prior to independence once politics became open. Two prominent Malay political parties, the United Malay National Organization (UMNO) and the Pan-Islamic Party of Malaysia (PAS), were organized and each responded to their Malay and Muslims constituencies. During the 1955 federal election, an interesting event about Islam and politics happened. In order to win votes, PAS exploited the conservative rural Malays by appealing for support merely through Islam, through the rationale that "we are Muslims and that we have to vote a fellow Muslim into power."[93] Being conservative, the Malays usually consider the benefits of the afterworld as opposed to the world. They were not really interested in development, making it easier for PAS to operate within that environment. After independence, Malaysia succeeded in improving material development. The UMNO, which led the Alliance, proceeded to use the wealth of the country to develop the rural areas, which were given top priority. The government developed roads, schools, and health centers, creating the necessary infrastructure for rural development, and in terms of providing education and opportunities for the rural Malays to progress. However, these opportunities were very limited before 1969. PAS,

[92] Myron Weiner, "Empirical Democratic Theory," in Myron Weiner and Ergun Ozbudun, eds., *Competitive Elections in Developing Countries* (Durham, N.C.: Duke University Press, 1987), 20.

[93] Musa Hitam, "Islam and State in Malaysia," paper presented at the *Forum on Regional Strategic and Political Developments,* organized by the Institute of Southeast Asian Studies in Singapore, 25 July 2001.

with other opposition political parties, as well as the electorate found it difficult as they knew of the government's success. Under such circumstances, PAS appealed solely to religious and racial sentiment through a "we are Muslims" slogan.[94]

Further development in the political process in Malaysia saw the opposition political parties, particularly PAS, exploiting the religious and racial sentiments of the Malays. They argued that as an Islamic Party, Malays should turn to PAS in order to improve material circumstances. That political process ended with an event in Malaysian politics, known as the "Incident of 13 May 1969," which led the government to implement the New Economic Policy (NEP) in favor of the Malay. According to John Mbaku et al., strong ethnic identification frequently results in the exclusion and marginalization of some groups from the mainstream of national politics and the economy. Groups compete to control the political machinery, and once in power adopt policies that favor some groups at the expenses of others.[95] Mbaku has pointed out further that a primary cause of the low level of social and economic development in many third-world countries is the failure to deal effectively with diversity. I believe that peaceful coexistence of the main ethnic groups in Malaysia where racial conflict such as May 1969 has not repeated due to the negotiation and social contract prior to independence. This condition is necessary for effective governance and for social and economic advancement that Malaysia has experienced.

The success of that developmental process in Malaysia meant that the politics of development became increasingly lower in the priorities of all political parties that had brought problems to the government.[96] This conservative and religious Malay group, which was the backbone of the political process in Malaysia, had changed into a modernized group that had been exposed to education. Within this environment of development, new demands arose. The demands turned out to be much more ideologically orientated, as opposed to being purely development. PAS began to realize that there were issues of common interest and so they started advocating Islam as the

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[94] Ibid.

[95] John Mukum Mbaku and others, eds., "Ethnicity and Governance in the Third World," (Department of Economics, Weber State University, Utah). Database on-line. http://old.weber.edu/jmbaku/ethnicity.html. Accessed 8 September 2003.

[96] Ibid.

most suitable religion for Malays. The Malays moving from the *kampung* (village) to the urban areas within a short period of time suffers cultural shocks since most village folk were unable to cope with the pace of development. In terms of religion many turned to deviationist teachings, or expressed themselves politically by joining PAS or giving support to the Islamic Party.

The political Muslims, termed as fundamentalists or revivalists in the previous chapter, have contributed to the interesting political scene that Malaysia currently experiencing. UMNO, being too long in power since 1959, refuses to accept reality or to adapt to the changes that have taken place. The Islamic Party, which is treated with suspicion in the Malaysian context, managed to draw away UMNO-orientated supporters, not because they are a real alternative, but because UMNO has under-performed and has not given space to a new generation of members.

The government is losing its credibility, as it preaches what it does not practice. For example, in religious education, whatever proposals the present government formulates are no longer acceptable. This question of credibility results from the fact that the government has been in power for over 20 years and has lost its perspective of the peoples' needs and wants. In Malaysia today, loyalty to the leader and one's political cronies is not only expected, it is even thoroughly acceptable. From the ethical perspective, Islam does not condone corruption, cronyism and nepotism, but these are popular words now as they do exist.

These ethical issues exist as a part of fulfilling the concept of *maslahah*. According to Esposito, since the 1970's, Islam has proven to be a major force in Muslim societies where development theory predicted the progressive Westernization and secularization of society.[97] After decades of independence, most Muslim countries adopted Western development models and develop a more secular Muslim states. According to Esposito and Voll, Islamic political theories show models of other types of democracy, which are based on indigenously rooted forms of political participation and empowerment. Most Muslim governments are relatively authoritarian and dictatorial, but they are also secular and western in some ways. The complementary nature of Islam and

97 Esposito, John L., "Introduction," in John L. Esposito, eds., *Political Islam: Revolution, Radicalism, or reform?* (Colorado: Lynne Reinner Publishers, Inc., 1997).

western values include their sharing a commitment to democracy.[98] This scenario is very similar to Malaysia since 1981; Malaysia started to adopt the "Look East Policy" for its development model. However, other Muslim countries particularly Iran, Saudi Arabia, Qatar, Kuwait, United Arab Emirates, or Sudan are not secular and western oriented. Malaysia has learned in the old traditional way from the Westminster and Western-type of democracy that Islam and religion should be separated from politics. "Common argument holds that the religious and secular authorities are joined in Islamic society. Political and religious authority are strictly separated in the West and fused in the Muslim world." [99] In such a way, the constitution does not mention Malaysia as an Islamic state; rather it is a secular Muslim state.

UMNO leaders have argued that it is no longer the case. Referring to the context of the political process that is ongoing in Malaysia, Musa Hitam, a prominent UMNO veteran, says, "Islam and religion is part and parcel of politics and which we have to live with."[100] According to him, "Malaysia is still a vibrant and open society despite the restrictions that are in place, in which religion is a very important factor. The government must not be reactive in facing the Islamic party or an Islamic resurgence because it could undermine the modernization. Having people more educated, more facilities, and more exposure to modernization, the more liberal tend to be in their views. Such changes will take a long time, but will change gradually as they become more receptive to the idea of modernization."

Prime Minister Mahathir, after publicly declaring Malaysia as an Islamic state, challenged the Islamic Party to put in writing their version of an Islamic state. PAS responses are that what constitutes an Islamic state is reflected in their party manifesto and their policies in the states of Kelantan and Trengganu.[101] Even the Chinese are beginning to give favorable feedback about the PAS, claiming that the administration is much more business friendly, and they had less difficulty doing business in these two

[98] Esposito, John L. and Voll, John O., *Islam and Democracy* (New York: Oxford University Press, 1996) in Fisher, Michael H., "The Rule of Faith," *Biblio: A Review Book*, Vol. VI, No. 9, (September-October 2001).

[99] See for example Huntington, *The Clash of Civilizations and the Remaking of World Order* (New York: Simon & Shuster, 1996).

[100] Ibid., Musa Hitam.

[101] Both Kelantan and Trengganu states are ruled by PAS and are now being modeled as Islamic states.

states. That was claimed by PAS to be the positive aspect of Islam as they are practicing it in relation to governance. Of course, there are also other aspects of Islamic governance that may prove more controversial.

Malaysia is a semi-democracy, but UMNO claims its electoral processes are considered democratic. According to Mahathir, the UMNO President and the Chairman of the National Coalition, out of 10 general elections since independence, opposition parties have won not only numerous parliamentary seats but were now able to form state governments in two Malaysian States. He argues that correctly interpreting Islam and applying principles of democracy in a unique way have made Malaysia more successful than other Muslim countries.[102] However, Mahathir's regime has been labeled as authoritarian. Apparently, he is more concerned about the *maslahah* of the society. In a pluralist society like Malaysia, the well being of the society as a whole is more important than focusing on the rights of certain individual or political party. Malaysia learned a bitter experience during the racial riot of 1969.

In many Muslim countries, violence and underdevelopment remains largely unaddressed. Huntington finds that Islam is prone to political violence, which has predisposed Muslim societies to authoritarianism.[103] A recent study by Monty Marshall suggests that of 207 major cases of intrastate violence, 72 (35%) of the total occurred in Muslim countries. It is obvious that the Muslim world has its fair share of violence.[104]

Since the issue of violence is universal, it is essential to explore the reasons Muslim states are authoritarianism, or less hospitable to democracy. Studies on Islamic government agree that there is a distinct difference between Islam and Judaism or Christianity. In Islam, religion is integral to all areas of life, which encompass politics, law and society. A head of state is to ensure governance according to Islam, to spread, and to defend Islamic rule. The importance of law gives the *ulama* or spiritual leader a special status as a guardian of religion orthodox.

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[102] Dr. Mahathir Mohamad, "PM's 30th Annual Williamsburg Conference Speech," *New Straits Time,* 12 April 2002.

[103] Ibid, Samuel P. Huntington, *The Clash of Civilizations and the Remaking of the Modern World.*

[104] Ibid., Steven M. Fish, 17.

Referring to Al-Suwaidi, Muslims have continued to assume that only a religious leader can provide good governance for the Muslim community. Muslims seek a religious leader to guide the political community; thus one would expect most political leaders in the Muslim world to be a religious leader.[105] Surprisingly, many of the Muslim world's famous politicians— Indonesia's Megawati, Pakistan's Zulfikar Ali Bhutto, Malaysia's Mahathir, or Egypt's Gamal Abd Nasser—hardly fit the profile of religious leader. To Malaysia's Mahathir, the majority Malay-Muslims in Malaysia adheres to the fundamental teachings of Islam rather than the interpretations made by Muslims with political agendas. To him, fundamentalism is not about being extreme, but entails following Islamic teachings and the acceptance that there will be those who reject Islam. Islam does not advocate hostility, except when attacked. Even then, if they pursue peace, Muslims must be willing to entertain their proposition. He claims that Islam is the reason for Malaysia's peace and harmony and for its rapid development.[106]

Why Muslim states in the Middle East cannot achieve successful development as compared to countries in Asia, such as Malaysia and Indonesia, is an interesting issue to examine. According to Cantouri, the intellectual development of the modern Arab world has been one of accommodation to western culture, Arab nationalism, and Islamic revivalism. The Islamic revival has political consequences in two ways.[107] First is the majoritarian way in which the political center is willing to compromise and accommodate populist religious sentiment (e.g., Jordan, Lebanon, Syria, Turkey, Morocco, and Yemen). The second is the majoritarian-reformed Islam, such as in Egypt, Tunisia, and Algeria, where the political center had chosen repression rather than accommodation. Though the Islamic approach to development begins with different assumptions, it still embraces capitalism, such as Malaysia and Indonesia. Muslims should begin with the spiritual advancement as a priority to be rewarded with material advancement by following the concept of ethics, consensus, and *maslahah*. So why did Muslim countries in the Middle East not develop? Based on the World Bank's Annual Report, 1996, "in the

[105] Al-Suwaidi, "Arab and Western Conceptions of Democracy," in David Garnham and Mark Tessler, eds., *Democracy, War, and Peace in the Middle East,* (Bloomington: Indiana University Press, 1995), in M. Steven Fish, "Islam and Authoritarianism", Ibid., 22.

[106] Ibid., Dr. Mahathir Mohamad, "PM's 30th Annual Williamsburg Conference Speech."

[107] Louis Cantori, "Islam's Potential for Development," *The World & I*, Vol. 12 (Washington: 9 January 1997): 1.

1960s the Middle East and East Asia had similar per capita incomes, but East Asia has now 10 or more times those of the Middle East."[108] The difference is that Asian leaders employ the conservative values of their cultures to construct a development vision, which emphasizes not only moral values of cooperation and mutual responsibility, but also economic improvement. The Asian calls for self-sacrifice on the part of their workers, based on mutual responsibility, where social equity underlies the system and Asian corporation is mobilized corporatism. In the Middle East, their corporation is immobilized and they failed to construct efficient civil servant that makes it possible for the state to plan industrially and work cooperatively with large-scale private industries.[109] In Malaysia, for example, the "Look East Policy" has inculcated a culture of Bersih, Cekap, Amanah (literally this means "non-corrupt, efficient, and honest") in the private and public sectors. Furthermore, the government has also inculcated the Islamic values in the administration.

I would like to clarify the concept of *maslahah* and the issue of misinterpreting Islam to Malaysia. In politics and economy, experts in this field, which the government has interpreted as *ulama,* should be given the responsibility to govern various disciplines to ensure that public interests are pursued by correctly interpreting Islam. Based on Asia Market Research, Malaysia remains a strong government that prefers stability, but owing to worldwide terrorist activities shifted to conservative policies. Politically, Malaysia has been extremely stable for the past 20 years, achieving steady growth that was one of the fastest in the world until 1997.[110]

The current political events in Malaysia remain contentious. Under Mahathir's leadership, the UMNO maintained its political dominant that continued to receive widespread support from urban or rural populace regardless of religious and ethnic groups. Almost all Malaysian respected him until the Asian financial crisis and the

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[108] Ibid., 3.

[109] Ibid., 4.

[110] "Country Profile & Guide: Malaysia Capsule." Database on-line. Available from *Asia Market Research dot com*. http://www.asiamarketresearch.com/malaysia. Accessed 6 June 2003.

dismissal of his deputy, Anwar Ibrahim, from the government on the charge of corruption and sodomy before the 1999 general election. The trial was controversial, as many saw it as politically motivated, and it had received wide media coverage.

The UMNO's leadership crisis, due to differences of opinion between Mahathir and his deputy on policies, views and commitments, took root when Anwar criticized the government's economic policy. Anwar turned down the IMF's recovery plan since Mahathir (who was also the Finance Minister) had planned for a currency control strategy. Anwar also raised the issue of cronyism that benefited few Malays, and he refused to support the bailout of Mirzan [Mahathir's son] and other cronies with the peoples' money.[111] In reality, the positive discrimination policies have not successfully distributed wealth, but instead have created a new exclusive class of Malay businessmen, who Mahathir himself calls 'good cronies.'[112] Mahathir perceived Anwar's credibility and influence over the conservatives and middle class Malays as threatening to his position. Though public respect toward UMNO remains, the decision the Malaysian elites, who had to protect their interests, concerned many Malaysians.

The event also led to the formation of the *KeAdiLan* (Justice) Party, a new major force in Malaysian politics, led by Anwar's wife. Theoretically it is multi-racial, but in practice it is more of a Muslim Party. Many of Anwar's supporters from UMNO initially joined the party to submit issues such as *Reformasi* (reforms), justice for Anwar, and anti-Mahathir. The party including Anwar's wife won several federal and states seats in the 1999 election. Currently, many of its members have returned to the UMNO, which made the party switch to a broader agenda. As for PAS, the sacking of Anwar had rejuvenated the party to make major electoral gains in northern states, and Trengganu while the conservative Malays saw their representation in UMNO and the Coalition being decimated.[113]

To stabilize the political situation and to ensure continued growth, "the government continues to support what has worked in the past financially, rather than base

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111 K. George, "Mahathir's Rule: A Brief Review." Database on-line. http://www.malaysia.net/aliran/highi9906.html. Accessed 4 November 2003.

112 Ibid., "Country Profile & Guide: Malaysia Capsule," 4.

113 Ibid., 2.

their support on less tangible ideals of democracy."[114] Issues such as Islamic conservatism and government transparency can cause changes in international businesses working with Malaysia. These issues have been overstated by the international media due to the misunderstandings of the composition of the Malaysian society and the government on issues of tolerant and progressive Islam as practiced by UMNO and the more religious radical policies of PAS. UMNO will be forced to adopt some of the moderate policies of PAS in order to gain Muslim supporters. The Chinese coalition partner continues to pressure UMNO to relinquish some control to them. While successful in reducing racial tension for many years, the government is aware that the Malay affirmative action "seems to reduce incentive for all racial sectors." To soften the populace, the government reacted by announcing that "globalization will force us to review our policies," highlighting the success of past policies and that that these privileges cannot last forever, and raising the issue of a non-Muslim becoming the Prime Minister.[115]

F. CONCLUSION

As a Muslim country where Islam is vested as the official religion**,** Malaysia adopted a secular form of government with some emphasize on the *Shari'a*. The implementation of the *Shari'a* by the state is limited only to administering the Islamic family and social laws such as *zakat* collection and redistribution, marriage and divorce, sanction and punishment, or inheritance as well as the being used as the guiding principles in the management and ethics of the government. The nature of religious belief and society is also reflected in the political development. In Malaysia, Islam has become intertwined with politics due to communal issues of inter- and intra-ethnic relationship. A strong state is assumed, to maintain order and to permit religious and cultural practices. The model is definitely made in the form of "top down," which seems authoritarian, but in reality is more complex. Malaysia has succeeded in maintaining the value of a consensus among the society to remain peaceful.

All civilized societies, including Islam, have some built-in system of indoctrination to ensure that people behave in a socially acceptable manner. Islamic government must not be passive to the ethical conditions of the people since its success

[114] Ibid., 3.

[115] Ibid., 4.

depends on their ethical behavior. An ethically motivated civil service must be created. They should be reasonably paid to lead honorable lives and to discourage them from being corrupt. Malaysia has opened up and learned from the west, relating Muhammad's own experience that does not restrict him from learning from Jews and dealing with non-Muslims in business. Though the Islamic values have been inculcated among the public servants, the political elites were accused of practicing corruption, cronyism, etc. This unethical behavior has some positive effects as a response to the pressure of Malays' underachievement in economics and to narrow the inequality among ethnic groups.

Ethnicity is a key feature of most third-world countries, and Malaysia is not the exception. Due to different religious ideology, culture, and ethnicity, Malaysia must reconcile inter-ethnic relationships and also intra-ethnic divisions within the Malay societies. When political institutions adequately harmonize the interests of the diverse groups, diversity contributes positively to political stability, economic growth and development. Sufficient provisions and constraints are required that adequately protect all groups from oppression and discriminatory practices. Since dominant groups have a tendency to marginalize others, it is argued that Malaysia's harsh and unethical approach to reconcile inter- and intra-ethnic relationship is not intentional, but it is paramount toward *maslahah* of the society for economic equality and stability.

Appropriate institutional arrangement must guarantee the rights of the people to maintain their identity. However, at the same time, they can freely choose to form associations with others to accomplish common ends. In the case of Malaysia, the constitution clearly defines the privileges of the Malays and Islam, but it also allows other ethnic groups to practice their religion and culture freely as long as they do not instigate inter-ethnic or inter-religious bigotry.

IV. ISLAM AND ECONOMY IN MALAYSIA

A. INTRODUCTION

This section examines Islam, ethnicity, inequality, and economic development in Malaysia. These subjects are not only important for Malaysia but to many other countries, which would share this experience. Despite being an ethnically heterogeneous country, Malaysia was the tenth-fastest growing economy from 1970 to 1990. Malaysia's attempt to reduce ethnic economic inequality through an affirmative action program—the New Economic Policy or NEP—has boosted the growth rate of 7% annually when sociopolitical factors are taken into account. The African National Congress (ANC), for example, was attracted to Malaysia's experience in rebuilding South Africa.[116]

As a Muslim state, Malaysia subscribes to a western economic system while adhering to some form of Islamic principles in its development programs and governing pluralist societies. Malaysia's success can be witnessed from its economic performance and stability and intends to reach the goal of becoming a "fully developed country" by 2020.[117] Ironically, one scholar has claimed that these Islamic principles have benefited only a few Muslim states, such as Malaysia. Other non-Muslim economies of East Asia took advantage of these principles to achieve tremendous economic growth, which was widely known as the "East Asian economic miracles."[118] I would argue that Malaysia's economic success is related to innovation in the redistribution of wealth to benefit the Malay-Muslims as well as the efforts to create an environment of growth that could benefit the non-Muslims.

Malaysia must manage its ethnic politics well and take advantage of its economic growth. Hence, Malaysia's economic policy reflects certain aspects of the so-called "Islamic economy," a system that Islam prescribes for individual and social behavior in economics, which emphasizes social justice. It resembles all other systems that claim to

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116 Donald R. Snograss, "Successful Economic Development in a Multi-Ethnic Society: The Malaysian Case," paper prepared for the *Salzburg Seminar*, 1992, 3.

117 See for example Mahathir Mohamad, "Malaysia on Track for 2020 Vision," *Prime Minister's Department*, 1999. Database on-line. http://www.smpke.jpm.my. Accessed 30 October 2003.

118 M. A. Muqtedar Khan, "Mythology of Islamic Economics and Theology of the East Asian Economic Miracle," *The American Journal of Islamic Social Sciences* (Winter 1999): 1.

be serving human beings and advances social aspirations.[119] Since many Muslims believe in the comprehensiveness of their system, it may challenge the existing secular economic systems. I would argue that Malaysia's inclusion of Islam in its mixed-capitalist economic system has substantially affected economic growth.

In exploring this issue, I examine the concept of an "Islamic economy." If such a system actually exists, we must ask what are its fundamental principles and implementation. I also examine the evolution of Malaysia's economic policies to identify whether Malaysia subscribes to any kind of Islamic economy and to identify what role Islam has played in influencing the economic growth.

B. ISLAM, SOCIAL JUSTICE, AND ECONOMIC REGULATION

In his book *Social Justice in Islam*, Syed Qutb wrote that Islam is a creative movement that seeks to shape human life through a special vision of life that is capable of being brought into being when one is positively influenced by Islam.[120] He further explained that Islam molded a new idea of the totality of life based on his interpretation of the *Qur'an* 3:110, "You were the best nation brought forth to mankind." Qutb argued that this idea had its impact on all human concepts of life and in all their interactions and relationship, which lies in social mutuality and social security.[121]

Qutb asserted that true social justice can only be attained through Islam: "The absolute equality of all mankind was the message of Islam."[122] Through historical examples, he illustrated that the nature of Islamic social justice embodies human equality, freedom of conscience, and absolute justice, and is very different from Western notions of justice. He contended that throughout the history of Islamic civilization and up to the present, Muslim communities have "established a principle that the Western world has

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[119] Ayatullah Muhammad Ali Taskhiri, "Islamic Economy: Its Ideological and Legal Foundations," Translated by M. Azimi Etemadi, *Message of Thaqalayn, A Quarterly Journal of Islamic Studies,* Vol. 2, No. 2 & 3 (2001).

[120] Syed Qutb, *Social Justice in Islam,* Translated from the Arabic by John B. Hardie and Revised by Hamid Algar (New York: Islamic Publications International, 2000), 164.

[121] Ibid., 165.

[122] Ibid., 186.

sought for tens of centuries to establish almost without success, namely, that there are not some trades that are estimable and others that are degrading; rather there are some men who are estimable, and others who are not."[123]

According to Ali Taskhiri, economic social justice emerged in an Islamic society through certain actions based upon some general regulatory and conceptual authoritative texts stated in the *Qur'an* that: (1) Stresses the inherence character of private and public property in a way that these properties act on the fulfillment of man's natural demands for possessing the result of his effort and obtaining the benefits of his business; (2) Emphasizes the economic freedom in a natural form based on the rule, which stems from the nature of the ownership along with the belief in the existence of some limits at which this freedom ends; (3) Emphasizes the inherence of mutual responsibility and cooperation, and further considers that all kinds of negligence are generally a rejection of faith and religion. Islam guarantees, for every individual, the subsistence levels of his natural needs and the government is obliged to provide these needs; and (4) Stresses the principle of social balance and rejects the class system, which prohibits wasting and squandering in all areas, renouncing poverty, and providing subsistence for individual.[124]

Besides economics, the Islamic economic system has a strong connection with other systems.[125] In politics, certain crucial positions are reserved for the expert or leaders, which are determined by the prevailing situations and the societal interests. These positions can be found in economic, legal, and penal systems and in the institutions of endowment, transactions, or inheritance that indicates the complete connection between these institutions and the political system. Economics is also related to *ibadah* (worshipping). The system of Islamic taxes or financial punishment, for example, is presented as the companionship of the prayers. Economic participations, particularly in the service of public economic interest, are designed to provide the proper environment for mutual responsibility, balance, and dual ownership that emphasize, for example, the labor aspect, prohibition of usury, financial misappropriation, harmful acts, and wasting of wealth. Additionally, economics is related to the Islamic family and social system such

[123] Ibid., 190-191.

[124] Ibid., Tashkiri, "Islamic Economy."

[125] Ibid.

as dowries, allowances, various methods of division of labor, and issues such as inheritance, and the rulings with regard to children, adjudication, discretionary punishments, and other varieties of financial punishments.

Al-Sadr, another proponent of Islamic economy, also believes that Islam has a separate system of economy. He acknowledges capitalism and socialism as schools of economics and asserts that Islam has expressed its opinion about all those questions with which secular system had dealt. Western scholars, however, have argued that there is no Islamic economy because Islam did not discuss economic problems such as the law of diminishing returns, the law of supply and demand, the law of wages, and the general theory of value. They seem to be under the impression that Muslims claim the existence of an economic system in Islam.[126] Taskhiri, on the other hand, criticized the idea of cross combination of ideology and system, which signifies the establishment of secular economic systems in Islamic environment or the implementation of Islamic institutions in secular social structures. He argued that when this combination fails, such as the failure of the socialist system in Libya and Algeria under Boumedienne, they tend to ignore the contradictions between the systems.[127]

Such claims appear to be idealistic but in reality, the principles that Islam suggests for economic systems are exactly opposite to those practiced today by many Muslim states. Internal obstacles against economic growth in Muslim countries was much affected by the absent of political stability due to corrupt regimes that only exploited the state's resources and the absence of any tangible plan for growth with a proper national budget and accountability.[128] Malaysia, for example, has a corruption/nepotism problem, not because of Islam, but partially due to a lack of accountability and the government's desire to retain Malay dominance and to maintain stable growth. Externally, the developing countries with significant Muslim populations have experimented with a large variety of economic systems. They could not achieve political and economic cooperation,

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[126] Ayatullah Baqir Al-Sadr, *Islam and the Schools of Economics*, Islamic Seminary, Translated in English by M. A. Ansari, 1998.

[127] Ibid., Taskhiri, "Islamic Economy."

[128] "Economic Growth: Between Corrupt Regimes and the Takeover of Expansionist Countries." Database on-line. Available from *Nida'ul Islam*, Issue No. 8, May-June 1995. http://www.islam.org.au/articles/older/ECGROWTH.HTM. Accessed 6 June 2003.

especially among the members of the Organization of Islamic Conferences (OIC) because of certain underlying obstacles. Their individual priority outweighed the loyalty to the Islamic *umma,* and a great diversity among the states and a general misconception about the organization's purpose and needs exists.[129]

Apart from such arguments, Muslim scholars are also divided on these issues. Some recognize the existence of Islamic economy, but criticize its implementation while some claim that there is no workable Islamic economy. Haneef argues that the Malaysian example in attempting to implement Islamic principles in economic development lacks a coherent conceptual framework. Until such a framework is developed, Malaysia's economic system will remain more "Islamic" in form than in actual substance.[130] Khan believes that there is no Islamic economy and that its theorization is wishful thinking. To him, the Islamic economy has become synonymous with interest-free banking.[131] Islamic economists have chosen to make interest-free as the defining characteristic of an Islamic economy while many of its other important elements are ignored.[132] Referring to the East Asian economic miracle, Khan identifies three important factors of the miracle—high savings, consultative decision making and a more balanced distribution of wealth. He argues that an Islamic economy should be hypothesized based on these elements. While Muslim economists sadly pay little attention to these Islamic values, non-Muslims who constantly adhere to them continue to benefit from their virtues.[133] Arguably, the banks in these economies lend money at interest, corruption is prevalent, such as in South Korea,[134] and not all the societies were Muslims. Additionally, Kuran argues that there is no workable Islamic economic system due to western influence and global corruption.

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[129] Zeinab Abdel-Azeem, "Obstacles to Islamic Economic Cooperation." Database on-line. Available from *Islam Online-News Section*. http://198.65.147.194/english/economics/2000/1/article7.shtml. Accessed 6 June 2003.

[130] Mohamed Aslam Haneef, "Islam and Economic Development in Malaysia—A Reappraisal," *Journal of Islamic Studies*, Vol. 12, No. 3, (September 2001).

[131] Interest-free banking is also called profit-loss-sharing (PLS)—a redistribution system based on principles of sharing and equity, and fairness and honesty in the market place. The world has now experiencing operation of as many as 250 Islamic banks and financial institutions in more than 50 countries, Muslim and non-Muslims (Source: "Concept and Ideology: Evolution of Islamic Banking." Database on-line. Available from *Islami Bank Bangladesh Limited*. http://www.islamibankbd.com/Page/ih_1.htm. Accessed 6 June 2003).

[132] Ibid., M. A. Muqtedar Khan, 2.

[133] Ibid.

[134] See for example John Moran, "Patterns of Corruption and Development in East Asia," *Third World Quarterly*, Vol. 20, No. 3 (London: June 1999): 569-588.

Government-championed "economic Islamization" efforts in Sudan, Pakistan and Iran have all ended in failure due to corruption. Kuran blamed the west as the principal source of corruption, which feigns globalization and whose chief instruments are the military, cultural, and economic powers of the west.[135] In this context, Iran, a "pure" Islamic country, is quite corrupt, partly free from western perspective, and practices a socialist economic system, but not Islamic. Their authoritarian leaders, I believe, are using Islam to cover their activities.

In reality, the complexities of modern economic relations do not allow the "Islamic" elements of the planned economic transformation to go beyond the elements of interest-free banking. Islamic economics, reduced to these elements, can be seen from two contemporary conditions: the absence of an Islamic political economy and the lack of autonomous markets/economies.[136] First, in many parts of the Muslim world, the existing political structures are not specifically geared toward realizing an Islamic society; many of the legal codes have been imported from colonial regimes; the program of liberalization of Muslim economies is often dictated by the IMF and World Bank or conditional foreign aid; and foreign norms and economic policies serving the interests of globalization rather than Islamization undermine the prospects of Islamic political economies. Secondly, since the global economy has increasingly become interdependent, the complex network of economic transactions has made it impossible for any society to carve out an autonomous economy in which "local norms" can be implemented or enforced. Interdependence undermines autonomy and limits the scope for Islamic economies.

Despite such limitation, Akram Khan argues that Islamic governments can be competitive in the free market if they provide fundamental legal and social frameworks for a free market economy to prevent foul play and to create condition for business competition. Even though governments intervene in the market, such as to tax, to regulate business, and to impose restrictions on production or consumption, and actually

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135 Timur Kuran, "The Religious Undercurrents of Muslim Economic Grievances." Database on-line. Available from *Social Science Research Council*, New York. http://www.ssrc.org/sept11/essays/kuran.htm. Accessed 10 May 2003.

136 Ibid., Muqtedar Khan, " Mythology of Islamic Economics."

manipulate property rights, such actions, depend upon the overall social framework. In capitalism, such actions depend on political or other pressures of special interest groups, while the Islamic system is based upon the theory of *maslahah*.[137]

In the pre-colonial period, Islamic government's regulatory role could be found in an institution known as *al-hisba,* which had three functions: to enforce proper ethical behavior and restrain people from being unethical; to provide municipal services and protect the environment; and to regulate markets by checking weights and measures. They also enforced contracts, forced payment of debts by defaulters, and prohibited unlawful trade practices. During Western colonialization, *al-hisba* underwent modifications and subsequently declined. By the 19th century, the *hisba* function had transformed into a number of secular departments, discarding its religious content as irrelevant. With the market becoming more complex, the government had several regulatory agencies, replacing Islamic *hisba* by institutions that regulate the government as well.[138]

C. ISLAM AND ECONOMIC GROWTH

Recent commentaries have focused on the alleged impact of Islam on economic performance. According to Noland, much evidence affirms the hypothesis that religious belief affects a wide range of behavioral outcomes and religious activity can affect economic performance at the individual, group, or nation level.[139] He mentioned that participation in religion could potentially convey two economic advantages. First, while the poor might look alike to potential employers, lenders, and customers, membership in a good sect could convey a reduction of risk associated with particular individual and could improve the efficiency of resource allocation.[140] Second, intermediating institutions, such as interest-free banking, may be the mechanism through which it links religious affiliation and economic performance as a whole.[141]

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[137] Muhammad Akram Khan, "The Role of Government in the Economy." Database on-line. Available from *Islam Online.net*, 8 August 2002. http://www.islam-online.net/english/Contemporary/2002/05/Article12.shtml. Accessed 16 June 2003.

[138] Ibid.

[139] Marcus Noland, "Religion, Culture, and Economic Performance," *Institute for International Economics*, Washington, (20 September 2002): 1.

[140] Ibid.

[141] Ibid., 3.

Noland then studied the causal relationship between religion and economic performance using data from three-multi religious and multi-ethnic countries, namely India, Malaysia, and Ghana. His study confirmed the earlier finding by Barro and McCleary that there is no robust relationship between specific religious affiliations and national economic performance. Something as durable as religious affiliation could explain national economic performance that changes more rapidly over time. Their finding shows that Islam promotes growth.[142] Barlow, who researched cross-national growth for the period of 1950 to 1972 and Collins and Bosworth who did it for 1960 to 1973 found that Islamic countries grow more rapidly than other developing countries.[143] Other research based on the distance between Muslim population from Mecca and the attributes of Arabs culture also proved that Islam promotes growth.[144] With regards to Malaysia, Nolan's study on development at a sub-national level found that there is no robust relationship between specific religious affiliations and national economic performance, or that Islam promotes growth.

In contrast with these findings, Muslims today are relatively poor, either at the individual or the national level, despite an abundance of resources. Arguably, since the *Qur'an* is open-ended and subject to interpretation, Islam preaches fatalism, which is detrimental to growth. However, there are also *Qur'anic* verses that encourage enrichment.[145] It was proven that the Islamic world in the 10th century was more developed than Western Europe. The latter had caught up by approximately the 17th or 18th centuries, advancing faster than the former. This shows that Islam is consistent with both long periods of relatively rapid and slow growth. Lewis had identified two potential roots cause—intellectual and sociological.[146] According to him, between the 9th and 10th centuries, the gate of consensus building (*ijtihad*) among Muslim intellect was closed.

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142 Robert Barro and Rachel McCleary, "Religion and Political Economy in the International Panel," *NBER Working Paper 8931* (Cambridge: National Bureau of Economic Research, 2002) in Noland, "Religion, Culture, and Economic Performance," 6.

143 Ibid., Noland, "Religion, Culture, and Economic Performance," 27.

144 Ibid.

145 Timur Kuran, "Islam and Underdevelopment: An Old Puzzle Revisited," *Journal of Institutional and Theoretical Economics*, 153, (1997): 41-71 in Noland, "Religion, Culture, and Economic Performance," 25.

146 Bernard Lewis, *The Muslim Discovery of Europe* (New York: W.W. Norton, 1982), in Noland, "Religion, Culture, and Economic Performance," 26.

They seem to be satisfied that all the answers were already available. There was no need for further inquiry. One just had to obey. In discussing the sociological roots of Islamic performance, Ibn Khaldun argued that Muslim societies were founded by nomadic warriors whose bands were characterized by intense group loyalty—once they settled down, their descendents surrendered to the vices of the cities and were replaced by another wave of tribesmen of greater social cohesion. This can be related to low motivation among the upper classes of socially immobile, especially slave-holding societies that could not provide the rational for development through intense means.[147] These reasons cannot be used to rationalize the economic underachievement of Islamic society as Malaysia's case has proven otherwise. Hence, I will examine the settings that influence Malaysia's economic growth by tracing the evolution of its development policies.

D. ISLAM AND MALAYSIA'S ECONOMIC GROWTH

1. Malaysia's Growth Models

Malaysia's economy is influenced by a global and national context that became a liability as well as an asset for development. During the pre-independence and the first two decades following it, Malaysia's economy was based on exports of natural resources mainly rubber, tin and palm oil. This "over-specialized economy," however, was subject to strong export-induced fluctuations, depleting natural deposits, and too dependent on a single crop whose continued viability was being threatened by competition from a synthetic substitute.[148] Malaysia then diversified its economy through manufacturing, industrialization and services. When the economy became globalized, Malaysia strove to compete and prepare itself for a common goal of becoming an industrialized nation by year 2020. Furthermore, Malaysia had heterogeneous societies with a pattern of ethnic cleavage significantly among the Malays, Chinese, and Indians who differed sharply in culture, religion, patterns of occupation and income level. They co-existed peacefully during the British era but after independence, they had to interact more and were forced to work together to build the nation. Fortunately, these liabilities were compensated by existing conditions favorable for development. Ethnic harmony was successfully

147 Ibid.

148 Ibid., Donald R. Snograss, *Inequality and Economic Development in Malaysia*, 6.

maintained in a coalition aimed at resolving conflicts of group interests, inheritance of a strong physical and administrative infrastructure, and favorable ratio between land and natural resources to the population.[149]

The balance between assets and liabilities was successfully attained by strong economic performance from 1957 to 1969. The national GDP increased by 86% and a higher rate of growth between 8 and 10%.[150] By that time, however, such an increase did not contribute equally to economic growth or benefit the people equally. Although politically dominant, the Malay-Muslims were relatively poor due to low-productivity agriculture while the Chinese were the most prosperous group as they led in seeking economic opportunities, were urbanized and well educated. The Indians were less well off than the Chinese but better off than the Malays.

The government (led by the Malays) realized that income inequality has affected the majority of poor rural Malay supporters and actively promoted programs to provide economic benefits. Some of these actions were taken quietly, funded by taxes gained from a Chinese and foreign businesses as an open discussion would be inflammatory. The result was a shrinking economy that subsequently led to major riots in May 1969. The government has learned that development should resume in a manner consistent with ethnic harmony to avoid such violence from recurring. Two schools of thought have emerged among the Chinese and the Malays.[151] Most of the Chinese were in favor of pro-growth and argued that though in the long run it would have benefited the Malays—full employment, higher wages, and drawing them to a non-agriculture sector was the most feasible way to improve their economy and at the same time other races could benefit from the economic growth. Others propose the necessary direct intervention in the economy, if need be at the cost of economic growth. The intervention is in those parts traditionally monopolized by the Chinese and foreigners such as ethnic employment quotas, reservation for stocks issues, and the creation of Malay entrepreneurship, Malay-foreign joint ventures, and public sector ownership. In 1970, a 20-year NEP, an affirmative action which favored the Malays, was introduced. However, it had to be

149 Ibid., Snograss.

150 Ibid., 7.

151 Ibid., 9.

extended and renamed as the New Development Policy (NDP) as the achievement of the Malays still lagged behind. With the Vision 2020, the Malay-Muslims leaders have envisioned Malaysia to be a fully developed nation as long as racial harmony can be sustained.

As the issue of political stability, a major criterion for growth, has been dealt with, Malaysia prepared a tangible plan for growth. Under the British rule, Malaya was an enclave economy with a dualistic structure for almost 100 years. A large part of this economy was controlled by the British capital invested in rubber plantations, tin mining, and timber extraction mainly for exports. Most of the labors in these activities were the Chinese and Indian migrants. The other part of this economy was agriculture production and fishing, mainly for consumption in rural and urban areas. These activities were conducted by the Malays or the indigenous non-Malay communities. There were almost no large-scale industries. The Chinese largely controlled the small-scale processing industries, trade, and services. Based on the economic structure, the Malays were the poorest when compared to the Chinese and Indians. British administration adopted *laissez faire* trade policy with emphasis on law and order and maintained macroeconomic stability. The rental and export income generated were used for law and order and to build infrastructure for the economy to be profitable.[152]

The decline in rubber and tin prospects, economic instability, and severe political and demographic pressures required the Malaysian economy to be diversified from 1947 until 1970, which gave West Malaysia one of the highest standards of living in Asia.[153] This diversification of economic activities is part of the overall objectives of development planning for rapid economic growth, a lower degree of economic instability, greater employment opportunities, and a more equitable distribution of income and wealth. The evaluation on the diversification programs in relations to the existing and set objectives indicates an unfavorable conclusion. The unemployment problem has worsened and no significant improvement in the economic position of the Malays.[154] This observation

[152] Mahmood Hassan Khan, "When is Economic Growth Pro-Poor? Experiences in Malaysia and Pakistan," *IMF Working Paper 02/85,* May 2002, 4-5.

[153] David Lim, *Economic Growth and Development in West Malaysia 1947-1970 (*Kuala Lumpur: Oxford University Press, 1973).

[154] Ibid.

supports Collier's argument that among the risk factors to conflicts are a lack of alternative economic opportunities and ethnic dominance.[155] Collier's argument reflected Malaysia's experience of racial riots. Malaysian government has responded with a good pragmatic policy for redistribution and growth.

Malaysia's real GDP grew annually at an average of 6.6% from 1955 to 2000.[156] The ratio of private investment to the GDP rose from 9% in 1950 to nearly 20% in the 90s. There was a significant structural change due to the growth process. Agriculture was important in the 1950s in terms of its contribution to GDP and use of labor, but it has become less important today. Manufacturing and exports have taken the lead to the overall growth rate. The trade composition has changed from dependence on the export of primary goods to manufactured goods and foreign trade has become more important. The annual inflation rate was kept low, between 1 to 5%, except in the 1970s when it rose to 6%. There was a budget surplus in the second half of the 1950s and a negligible deficit in the 1990s. Domestic savings increased from about a quarter of the GDP in the 1960s to 40% in the 1990s. Foreign direct investments rose from 3% in 1970s to 6% in 1990s. In 1970, almost one half of the population lived in poverty, but the proportion of the poor is only 8% in 2000.[157] The quality of life of Malaysian has improved.[158]

Malaysia's growth experience can be divided into three phases—market led development strategy, state-led strategy, and Malaysia incorporated.[159] From 1957 to 1970, the government adopted a market-led development strategy. The government continued the colonial *laisez faire* policy for industry, but intervened extensively to promote rural development and provide social and physical infrastructure. The intervention biased the Malays in rural areas where investment was directed to agriculture and rural development, and public sector agencies were used for land development. The government did not intervene in industry policy, respecting the implied social contract

[155] Paul Collier, "Policy for Post-Conflict Societies: Reducing the Risks of Renewed Conflict," *World Bank* (17 March 2000).

[156] Hassan Khan, "When is Economic Growth Pro-Poor?" 7.

[157] Ibid., 8-9.

[158] See for example the UNDP Human Development Indicators 2003. The standard of living of Malaysian is ranked 58th position (Source: Database on-line. http://www.undp.org/hdr2003/indicator/cty_f_MYS.html. Accessed 30 October 2003.

[159] Ibid., Hassan Khan, "When is Economic Growth Pro-Poor?" 12-15.

that the Malay would lead the political role while the Chinese control the industry and commerce. Import substitution was promoted, but did not pursue a strong protectionist policy that can penalize the primary product sector. The policy is aimed at reducing dependency on import consumer goods, promoting the use of domestic resources, and creating employment opportunities.

From 1971 to 1985, the approach of development was changed to a state-led strategy. The NEP was introduced to eradicate poverty and restructure the society to redress economic imbalances between ethnic groups.[160] Two major targets were set for 20 years. First, the Malays would manage and own at least 30% as compared to 2.4% in 1970, of the total commercial and industrial activities by 1990. Second, employment at all levels and in all sectors particularly the modern urban sectors, had to reflect the ethnic composition of the population. To achieve the ownership target, a policy of nationalization was introduced in buying out and restructuring the equity of foreign-held companies and establishing trust companies for the Malays.

From 1986 to 2000, Malaysia incorporated was introduced involving the liberalization and privatization policies due to a major recession in the 1980s.[161] Economic experts saw it as a pragmatic approach to face the economic difficulty.[162] The government halted the process of restructuring the society, while the share of the Malays under NEP in corporate capital, employment, education and training increased. The focus was wealth creation, shifting policies to revive the economic growth through investment, particularly the private sector. These policies were designed to slow down the Chinese business interests and to induce foreign investment. In 1991, the NEP was extended with some modifications for another 10 years and was renamed the New Development Policy (NDP). The new policy switched the government approach toward supporting the Malays

[160] The NEP had two objectives: to reduce and eventually to eradicate poverty and to accelerate the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function. The overriding goal to which these objectives were expected to contribute was national unity.

[161] The Malaysia Incorporated Policy, formerly endorsed by the government on July 1, 1991 stresses the importance of cooperation between the public and private sectors in order to ensure rapid economic growth and national development. The success of the private sector leading to its expansion and increased profits will provide more revenue to the nation through the collection of various government taxes. (Source: "Guidelines on the Implementation of the Malaysia Incorporated Policy." Database on-line. Available from *Development Administration Circular* No. 9/1991. http://www.mampu.gov.my/Circulars/DAC0991/DAC0991.htm. Accessed 30 June 2003.

[162] See for example Donald R. Snograss, Ibid., 8.

through initiatives geared to entrepreneurship, managerial expertise, and skill development. A firm commitment to an open-trade system continues, and the market oriented policy reforms were accompanied by a strong focus on restoring and maintaining macroeconomic stability.

In the early 1980s, prior to the Malaysian incorporation, Malaysia seriously became involved in industrialization when the First Industrial Master Plan (IMP) for 1986 to 1995 was launched under the government sponsorship. Malaysia's late industrialization policy was due to comparative advantage in the production of primary commodities. Historically, Malaysia made a modest start in industrialization in 1968, when it passed the Investment Incentives Act to encourage manufacturing for exports to replace the import substitution strategy of previous years.[163] Two kinds of industries were prominent in those years: resource-based (processing of rubber and oil palm) and non-resource-based (electrical and electronics). The latter mostly provided new jobs and foreign exchange earnings and government revenue but made use of much imported inputs. Hence, "value-added" was small as it did not contribute much toward economic growth. Nevertheless, Malaysia was able to compete with other manufacturers of these products, until recently. The next move by the government was to venture into heavy industries, such as steel, car manufacturing, and cement. Malaysia believed that labor-intensive industries were not consistent with rising labor costs. The only way to generate faster economic growth was to go hi-tech and thus, the national car project was borne in Malaysia. The project has many spin-offs and generated a lot of inter-related industries.[164]

In the mid-1997, Malaysia's economic growth was halted by the financial crisis. The crisis, which developed in the financial markets quickly spread to the real economy (that produced real goods and services). In September 1998, Malaysia implemented another pragmatic policy—a widely criticized currency control. Yet these controls in effect saved the economy and set it back on track for recovery because it has successfully

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[163] Noran Fauziah Yaakub and Ahmad Mahzan Ayub, "Higher Education and Socioeconomic Development in Malaysia: A Human Resource Development Perspective." Database on-line. http://mahdzan.com/papers/hkpaper99. Accessed 6 October 2003.

[164] Ibid.

isolated the economy and halted the capital flight.[165] It allowed Malaysia to implement its National Economic Recovery Plan (NERP), monetary policies designed to rejuvenate the economy, free from external influences. From data released by Bank Negara on second quarter growth, the Malaysian economy can be said to have fully recovered from the crisis of 1997/98, with a real GDP growth rate approaching 10% for 2000.[166] Over the year, on the back of the growth is the manufacturing sector, particularly in the electronics sector, as well as the higher crude oil price.

In the history of Malaysia's development since independence, the present models of growth were successfully implemented with adaptations to respond to crises. The models were based on an export-oriented, imported-factor driven economy, with the government sector playing an alternative facilitative or interventional role depending on the socio-political circumstances of the period as in 1965-1985 when it was active and 1986 onward when government was reversing the process. Despite successful models, the growth was affected by political stability, except for a major racial riot in 1969 and few isolated cases of communal tensions in 1987 and 2000, which the government has successfully controlled.[167]

2. Growth Model for the 21st Century?

For the 21st century, Malaysia had the Third Outline Perspective Plan 2001-2010 (OPP3), and the Eighth Five-Year Malaysia Plan, 2001-2005. However, to achieve its 2020 Vision, Malaysia has yet to implement a viable growth plan.[168] The slowdown of the world economy will effect slow growth and we will see whether Malaysia's economy can sustain a long-term growth trend of 7% to 8% over the ten-year period of the OPP3. Malaysia must adapt to the new globalization and the new economy. A renown local economist has suggested a model that is based on a productivity push through economic reform that requires adjustments economy-wide that will have a better growth in the next decade.[169] The assumption is that Malaysia's economic future is inevitably linked to her ability to participate meaningfully in the future global change, and in her competency in

[165] Youning Sun, "Economic Development: An Analysis of Malaysia," *Social Science 410*, November 2000.

[166] Bank Negara Report, Second Quarter, 2000.

[167] Ibid., Kamaruddin, Master's Thesis, 31.

[168] Kamal Salih, "The Need for a New Economic Model," *The Edge*, 7 September 2000.

[169] Ibid., 3.

exploiting the opportunities and managing such changes. In the current environment of continuous change, firstly Malaysia must de-emphasize planning. The five-year plan mechanism is abolished and the OPP should be the main policy instrument complemented with the annual budget. Then, new competencies at the government, the firm, the household and the individual levels are needed. The competencies required strong domestic institutions and its development can be obtained by the inculcation of values—the most crucial is knowledge. Knowledge promotes innovation, which in turn will rely on the growth of enterprise in an economic, social and political environment. Policy orientation should avoid specifications of targeted outcomes but be flexible enough to adapt to external changes. The government's role in the economy should be reviewed. The emphasis of government should be shifted toward ensuring social justice in development, and should provide incentives and infrastructure.

From the government's perspective, Malaysia has recognized its vulnerability and to some extent there is a move to diversify exports and to create different revenue streams.[170] Besides a tourist destination, which contributes US $11 billion annually, Malaysia wants to establish itself as a center for computer science, education, and healthcare services. There is significant activity among the IT companies such as financial IT solutions, internet systems, web-based software, tele-medicine, or IT education systems. Real estate is another way the country has tried to gain an alternative revenue base. Malaysia is also promoting itself as an alternative destination for higher education. Facing great challenges from global economic uncertainty, the government's good track record shows it can undertake various initiatives that improve productivity and facilitate economic growth-initiatives that do not require natural resources.[171] To achieve these goals, pragmatism, infrastructure, services, industry and a good work ethic are clearly required.

3. Malaysia's Economic Islamization

Malaysia, like most Muslim countries, has implemented some economic Islamization policies. The most prominent is the Islamic banking or Profit-Loss-Sharing

[170] Massoud Derhally, "Malaysia: A Model for Economic Growth." Database on-line. Available from *Business Trends*, March 30, 2003. http://www.itp.net/features/print/104902628263956.htm. Accessed 30 October 2003.

[171] Ibid.

Banking (PLS). The concepts of modern Islamic banking date back to the mid 1940s. Models for Islamic banking appeared in Pakistan in the mid-1950s, but comprehensive and detailed concepts for interest-free banking only appeared in Egypt from 1963 to 1967.[172] The second Islamic Conference of Foreign Ministers in 1973 adopted a document on the "Institution of an Islamic Bank, Economics and Islamic Doctrines." In 1974, the Islamic Development Bank (IDB) was established as a result of this conference and the member states of the OIC became its members. Since 1974, the IDB helped to establish a number of Islamic banks in various Muslim and non-Muslim countries, such as in Dubai, Sudan, Egypt, Jordan, Bahrain and in Luxembourg in 1980. Today, there are more than a hundred financial institutions that claim to be operating partially or fully on an interest-free basis in 34 countries.[173]

In Malaysia, Islamic banking first emerged in the form of financial institution developed for the pilgrims of Malaysia.[174] To help Muslims save enough money without involving interest, the Pilgrims Savings Corporation was set up in 1962 and became operational in 1963. It was later incorporated into the Pilgrims Management Fund Board in 1969. The corporation managed the savings of Muslims intending to perform the Hajj pilgrimage and to improve their economy. The objectives were to enable Muslims to save money gradually, to perform the Hajj or other beneficial expenses, to enable Muslims, through the use of their savings, to partake in capital investments actively, which are *halal* (permissible) to Islam, and to provide protection, supervision and welfare to the Hajj pilgrims.[175]

Under the enactment of the Islamic Banking Act (IBA) in 1983, the first Islamic bank in Malaysia, Bank Islam Malaysia Berhad (BIMB) was established. BIMB with a paid-up capital of RM 100 million and an authorized capital of RM 500 million carried

[172] Ibid., Islami Bank of Bangladesh Limited, 3.

[173] "Malaysia toward Islamic State: Islamic Banking in Malaysia." Database on-line. http://www.islamic-world.net/islamic-state/malay_islambank.htm. Accessed 6 October 2003.

[174] Ibid., Islami Banking of Bangladesh, 3.

[175] Ibid., "Malaysia toward Islamic State: Islamic Banking in Malaysia."

out its activities on an interest-free basis. BIMB was described as the "first step in the government's efforts to instill Islamic values into the country's economic and financial systems as a replacement for the current Western-base economic system."[176]

Syarikat Takaful Malaysia Berhad (Takaful Malaysia), incorporated in 1984, was then established with an authorized capital of RM 500 million and a paid-up capital of RM 55 million. It has been converted into a public listed company on the Kuala Lumpur Stock Exchange (KLSE) since 1996. A subsidiary company of BIMB, other major shareholders of Takaful Malaysia includes the Islamic Religious Councils and Baitulmals of some states and Amanah Saham Bank Islam (ASBI). The company objectives are to provide *takaful* services (Islamic Insurance) at the highest standard of efficiency and professionalism to all Muslims and the population of Malaysia.[177]

Besides banking, economic Islamization covers *zakat* (Islamic tax) collection. The Pusat Pungutan Zakat (PPZ) or *Zakat* Collection Center was established by the Federal Territory Islamic Council, Kuala Lumpur (known as MAIWP) in 1991. PPZ uses a corporate style of management by setting up a council of a company called the Hartasuci Private Limited. PPZ's responsibility is to collect *zakat* for the council and the redistribution is done by other agencies of the council. PPZ informs the public about *zakat* and the responsibility of the payers, to help the payers, both individuals and companies, calculate their *zakat* so that the *zakat* collection can be increased. The PPZ's guiding philosophy is to make the *zakat* payers feel that the payment is worshipping—to purify their wealth and soul, and to feel satisfaction and relief. PPZ relies more on educating the Muslim public as opposed to using force or the law because self awareness is more effective and appealing to the educated public.[178]

Another aspect of economic Islamization in Malaysia is the empowerment of Muslim women. Although this particular issue has prompted prominent debates over the years between the government and the Islamic opposition party, Muslim women in Malaysia received fair treatment from the government. Malaysian women are highly important contributors to the country's economic growth. Their access to health and

[176] *New Straits Time Malaysia*, 6 July 1982.

[177] Ibid., "Malaysia toward Islamic State: Islamic Banking in Malaysia," 2.

[178] Ibid., 3.

education and their participation in the economy have increased rapidly over the years. From 1990 to 1995, for example, the female labor force participation rate has been between 44 and 46 percent.[179] In 1995, Malaysia reaffirmed its commitment to improve the status of women at the United Nations Fourth World Conference on Women. Malaysia has implemented the National Policy on Women in order to involve them more in decision making, safeguard their well-being, remove discrimination, and ensure access to and benefits from development. Malaysia also allows active women involvement in organizations. For example, "*Qur'an and Woman*," a discussion of the *Qur'an* from a feminist point written by Amina Wadud Muhsin was first published in Malaysia in 1992. It is presently used as a manifesto by the Sisters in Islam (SIS) movement in Malaysia.[180] SIS was established as a working group of Muslim feminist intellectual activists in 1988 and was officially registered in 1993, with a mission, "to promote the development of Islam in Malaysia that upholds the principles of equality, justice and democracy," which also takes on broader gender-related concerns and questions that relate specifically to Muslim women. Through their publications, letter-writing campaigns, awareness generating forums and other activities, SIS has raised the level of awareness over issues related to Islam and Muslim women's right in the country and beyond.[181] Living in a healthy environment, Muslim women in Malaysia enjoy relative social justice. They represent an important workforce in the country that contributes to economic growth.

E. CONCLUSION

Issue on Islamic economic system remains contentious. There are debates among Muslims and non-Muslims regarding this system whether there is an Islamic economy even exists. The fact is that there are general regulatory and conceptual authoritative texts on the Islamic economy in the *Qur'an*. However, there is no evidence either in the *Quran* or the Prophet's traditions, which suggest a hierarchy of Islamic economic values. There are also concepts of Islamic *hisba* that guide Muslims government to regulate the economy as well as ethical governance. These concepts have been interpreted by

[179] See for example "Chapter 1: Malaysia: Country Overview." Database on-line. Available from *Country Briefing Paper on Women in Malaysia.* http://www.adb.org/Documents/Books/Country_Briefing_Papers/Women_in_Malaysia/chap_01.pdf. Accessed 30 October 2003.

[180] Ibid., Osman bin Abdullah, Master's Thesis, 42.

[181] Ibid., 43.

Muslims scholars that Islamic economy envisioned social justice in an Islamic society as well as impacting all human concepts of life and their interactions in politics, worshipping, and social systems. The core beliefs and teachings of Islam reflect certain values of equality although arguing whether Muslims live up to these teachings is moot, as evidenced in real life.

In reality, the tangible practice of an Islamic economic system is only limited to interest-free banking. The limits on the discourse are difficult to comprehend as why interest alone has taken center-stage. Other aspects of an Islamic economy such as issues of distributive justice, prohibition of extravagance, exploitation, equality and fairness, discrimination and welfare are ignored or marginalized. Economic Islamization efforts in some Muslim countries have failed as someone blamed the west and corruption, while many were skeptical about its future because of the current global economic structure and interdependencies have made local norms irrelevant.

Some argue that Islamic guiding principles benefited non-Muslims in the free-market economies as there are no significant differences between Islam and secular economic system. Government's actions following the concept of *maslahah*—either to intervene in the market, to redistribute income, to set minimum wage, to expropriate private property or exchange control—is to ensure economic development and to avoid instability. According to the UNDP report, political upheavals, conflicts, sanctions and embargoes have affected many Muslim economies, causing declines in productivity and disrupting markets. The impact of war is slow growth, damaged infrastructure, social fragmentation and public sector stagnation.[182]

Studies on whether Islam has affected economic growth show a positive relationship: Islam promotes growth. In Malaysia, however, studies on development at the sub-national level find that there is no robust relationship between specific religious affiliations and national economic performance. Eventually, Malaysia's redistribution of wealth that favors the Malays promotes growth that benefits other ethnic groups. Since 1969, there have been no serious ethnic schisms that could lead to instability or could hinder economic growth. Malaysia's recipe for growth since independence has consisted

[182] "Overview: A Future for All," *Creating Opportunities for Future Generations*, Arab UNDP Report, 2002.

of political stability, good policies—economy diversification from the export of natural resources to industrialization, positive affirmative action for the distribution of wealth, government rational economic intervention and Malaysian incorporation—and pragmatism. For the new millennium, Malaysia's growth model has yet to be realized. However, the government had taken aggressive actions to response to the changing economic situation by diversifying exports and creating different revenue streams.

Malaysia's implementation of Islamic economy can significantly be seen through the establishment of Islamic banking, the management of *zakat* collection, and the empowerment of women. Islamic banking was first established in the 1960s in the form of a corporation that helped Muslims save money for pilgrimage as well as for economic purposes. Islamic banks and institutions were then expanded to cater to the growing needs of interest free-banking as well as the management of zakat collection. *Zakat* management is important as it encourages worshipping while increasing the number of payers who determine the increase of collections, which can be redistributed for religious and economic activities.

Muslim women in Malaysia play an important role in economic growth. The conditions that guaranteed freedom and justice have encouraged them to pursue education for empowerment and filling competitive positions in both public and private sectors. In sum, the Islamic economic system is rather well-established in Malaysia and its structure really interacts with politics for stability, social justice for redistribution of *zakat* and worshipping, and a tool for the empowerment of women.

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V. ISLAM AND DEVELOPMENT: A COMPARATIVE ANALYSIS OF MUSLIM SOCIETIES IN ASIA

A. INTRODUCTION

Originating in Arabia in the early 7th century, Islam has now become a world religion. Muslims have traditionally divided the world into *Dar al-Islam* (countries where Islam rules) and *Dar al-Harb* (countries at war with *Dar-al-Islam*). *Dar al-Ahad* (the Land of Pact) emerged as Muslims were indecisive about Muslims minorities living permanently in non-Muslim states because some nations recognized a third division, called *Dar al-Ahad*.[183] *Dar al-Ahad* refers to the countries that have diplomatic agreements and covenants with the Muslim nation. While Islam is commonly recognized as a Middle Eastern religion, the majority of Muslims live in Asia: Indonesia, Bangladesh, Pakistan, and India, for example, are the most populous Muslim societies.[184] From the late 13th to 15th centuries, conquering tribesmen, traveling merchants and the *sufis* brought Islam from the Middle East and converted new peoples to form Islamic societies in inner Asia, Afghanistan, India, and the Malay Archipelagos.[185] The influence of Malay sultanates later diffused Islam to Borneo Island and the Philippines. By the 17th century, Islamic societies were fully institutionalized in much of Asia.[186]

In Asia, Islam plays a diverse role in public life. Malaysia and Indonesia can be considered partly *Dar al-Islam,* as Muslims are politically dominant, but they must accommodate non-Muslims with religion and cultural pluralism. Both countries, however, have a different approach in addressing Islam and development. Conventional wisdom assumes that Islam is unfit to transform a developing country into a modern state

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[183] These two concepts are not explained in the *Qur'ân* or *Sunnah* but in fact are a result of *Ijtihad.* According to Yusuf Qaradawi, a Muslim scholar, a country or a territory becomes a *Dar-al-Islam* if the Muslims are able to enjoy peace and security and it has common frontiers with some Muslim countries (other *Dar al-Islam*). He referred to any non-Muslim domain as *Dar al-Kufr* (countries of Unbelief) or *Dar al-Harb* even if there is no current war between them and the Muslims. Muhammad Ishaq Zahid refers *Dar al-Harb* as the territory under the hegemony of unbelievers, which is on terms of active or potential belligerency with the *Dar-al-Islam*, and presumably hostile to the Muslims living in its domain. (Source: Ahmed Khalil, "Dar al-Islam and Dar -al-Harb: Its Definition and Significance." Database on-line. http://bismikaallahuma.org/History/dar_islam-harb.htm. Accessed 31 October 2003.

[184] John L. Esposito, eds., *Islam in Asia: Religion, Politics and Society* (New York: Oxford University Press, 1987), 10.

[185] Ibid., Ira M. Lapidus, *A History of Islamic Societies*, 382.

[186] Ibid., 815.

that transcends a narrow-minded religious outlook. Muslim states are also perceived as treating non-Muslim citizens as less than equal; curbing their access to power and religious freedom while in secular democratic states, religious minorities face discrimination.[187]

In Malaysia, the policy of "inclusion of Islam" in development has proved workable whereas in Indonesia the policy of "exclusion of Islam" is not as successful as the former.[188] In both states, the constitutions have guaranteed minority rights and religious freedom. In the case of India, despite being democratic, there are more serious questions about the ability of the Muslims minority to live within the state. While the Indian constitution also guarantees the rights of minorities, Muslims have claimed that its implementation does not give them great prospects for development. They have limited choices in pursuing Islamic ideals and are constrained by the non-Muslim majority's governing inclination as well as internal diversions in choosing either to live in *Dar al-Islam* (Pakistan) or *Dar al-Ahad* (India). Furthermore, the growing influence of Hindu Nationalism, which espouses the idea of Hindu statehood, is further deteriorating religious harmony.

The purpose of this chapter is to analyze the impact of Islam on the wide ranging issues of development in Muslim and non-Muslim states with Muslims minorities. I compare Malaysia to Indonesia and India, which in varying degrees have certain similarities. All three were secular (although Malaysia claims to be an Islamic state), ethnically heterogeneous, possess diversity, and share the complexity of Islamic life, but they were different in embracing Islam and economic development. I believe that Malaysia is successful because Islam is included in its development and foreign policy agenda. The exclusion of Islam, especially in India and Indonesia, where Muslims are the major stakeholders, inhibits them from being as successful as Malaysia. I examine how Islam presents itself in the public life of Asian Muslims, and how Islam influences development. I also examine the political and socio-economic ideology of the respective countries.

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[187] Muqtedar Khan, "Islamic State and Religious Minorities." Database on-line. Available from *Ijtihad*: *Muqtedar Khan's Column on Islamic Affairs.* http://www.ijtihad.org/islamicstate.htm. Accessed 13 November 2003.

[188] Kikue Hamayotsu, "Islam and Nation Building in Southeast Asia: Malaysia and Indonesia in Comparative Perspective," *Pacific Affairs* (Fall 2002): 353.

B. INCLUSION OF ISLAM IN DEVELOPMENT

Postcolonial Muslim leaders have different versions of development because some were western oriented and others were committed to creating Islamic states due to their skepticism about the compatibility of Islam and modernity. For Malaysia, an ethnically heterogeneous country, the constitutional victory of Islam after independence is reflected in its institutionalization of Islam as the official religion, which thereby safeguarded the Muslim Malays' ideology and political supremacy. Malaysia claims to be an Islamic state, but nevertheless, Malaysia is less assertive in its approach than other Islamic states. Malaysia has adopted a western development model but seeks to establish a moral order inspired by Islamic principles.

After the racial riot of 1969, Malaysia adopted, reinforced, and further institutionalized the *Bumiputera*-centric ideology that witnessed a slow but steady advancing of national consciousness.[189] The country's continuous stable ethnic relations, partly due to harsh imposition of the Internal Security Act (ISA) against the former communist insurgents and instigators of racial sentiments, are important in helping the government to overcome the economic and political crises that impede growth. Despite being pro-*Bumiputera* and imposing harsh restrictions on political and civil rights, Malaysia demonstrates that Islam can be compatible with modernization.

After inheriting a stable government in 1981, Prime Minister Mahathir significantly transformed Malaysia into one of the most successful developing economies in Asia. In his era, Malaysia made the most radical ideological readjustment since independence.[190] The pro-Islamic government pledged support for Islamization and mobilized a promising Malaysian nationalism. Islam was incorporated in the national vision through a flexible and pragmatic interpretation and by rationalizing the principles of Islamic universalism. The practicality of these principles laid the foundation of the Islamic inclusive ideology in a newly emerging *Bangsa Malaysia* (the Malaysian nation)

189 Ibid., Kikue Hamayotsu, 355.

190 Ibid., 356-357.

since the late 1980s. This marked the departure from *Bumiputera*-centric policies to a multi-ethnic, global approach, and was paralleled by the government's Islamization commitment at the national and international levels.[191]

The centralization of executives (the political and economic) under the Prime Minister is one of Malaysia's success strategies.[192] Since the late 1980s, increasing authoritarianism has reinforced UMNO's dominance and has eroded the principle of the separation of powers and the Malay sultanates institution. Malaysia survived the mid-1980s' recession and implemented industrial development and mega national projects. There was a concurrent institutionalization of the Islamic administration apparatus with an increasing number of government-employed *ulama.* The expanded religious bureaucracies further restrained free religion activities or public expression. This was in line with the national Islamization and modernization trends to steer the nation to a common destiny using a combination of modern and global elements and the Islamic indigenous element. The government's vision was to make Malaysia economically and culturally developed although it seems that democracy has suffered.[193]

Another strategy posed by Malaysia to propagate Islamic concepts was the provocative anti-imperialistic rhetoric against western powers based on the changing world order.[194] This strategy was based on two assumptions—Malaysia's rising position in the world economy and the growing tension between the west and the Muslim world. In the 1980s and 1990s, the rapidly developing Asian economies including Malaysia, a Muslim state, made Lee Kuan Yew and Mahathir advocate "Asian Values." This philosophy argued that there was an Asian model that was uniquely different from the

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191 Ibid.

192 Ibid., 358.

193 In 1984, Malaysian government spelled out its plan to Islamize the government machinery. Islamization means to inculcate Islamic values in the government. The civil servants were urged to value integrity and make the universal values of Islam, like tolerance, part of their work. There was a sharp increase in the number of programs about Islam on radio and television, religious knowledge, and Islamic banking. (Source: Brendan Pereira and Leslie Lau, "The Mahathir Years: 1981-2003: Could Have Done Better," *The Straits Time,* 11 November 2003).

194 Ibid., Kikue Hamayotsu, 359.

western economic development models.[195] The East Asia's economic miracle and the issue of Islam versus the west helped to strengthen Mahathir's strategy. With the public's growing Islamic consciousness, he mobilized Malaysian Muslims' anti–western feelings, and claimed he was acting as the guardian of Islam. Malay nationalism was ideologically channeled from the non-Malays within the country to the west outside. Together with the material benefits, it appealed to many Malaysians.

The consequence of the socio-economic development had changed the culture of Muslims. The altering ethnic-based identity to a global one has resulted in a widespread middle-class symbolizes by consumerist and materialistic lifestyles.[196] Despite being modern, however, they became far more self-consciously Islamic. This cultural orientation, at the state and societal levels, allow UMNO as well as progressive and modernist Muslim segments to interpret Islam in their own terms. For Malaysia's conservatives and traditionalists like PAS, UMNO's act was extremely radical.

There are growing critics from PAS on UMNO's concept of a modernist Islam. PAS has enjoyed growing support from the disenchanted, the poor and rural citizens. While PAS long aspired to establish an Islamic state, UMNO had a more secular outlook.[197] UMNO's version of progressive Islam made the non-Muslims, who feared the prospects of Malaysia becoming an Islamic state as envisioned by PAS, less suspicious of the increasing position of Islam in UMNO's development policies.[198]

With the help of political and socio-economic successes, UMNO's response to the PAS was based on three credible ideological foundations: Islamic universalism, multiculturalism, and Islamic modernism.[199] First, these ideologies elevated Islam to an

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[195] See for example "Mahathir and the Asia Pacific Management Forum on Asian Values and International Respect," *Asia Pacific Management News,* 21 May 1996; and Francis Fukuyama, "Asian Values and the Asian Crisis." Database on-line. Available from *Find Articles*, February 1998. http://www.findarticles.com/cf_0/m1061/n2_v105/20217503/p1/article.jhtml. Accessed 31 October 2003.

[196] Ibid., Kikue Hamayotsu, 361.

[197] Such critics also came from a Chinese opposition party, which reminded UMNO and PAS leaders that in the escalation of the UMNO-PAS competition to "out-Islam" each other, they should not be insensitive or heedless of the 45-year "social contract" of the major communities on attaining Independence on the multi-religious character of Malaysia or the human rights of all Malaysians (Source: Lim Kit Siang, *Democratic Action Party Media Statement*, Petaling Jaya, 29 August 2002).

[198] Shireen T. Hunter, "Post-Anwar Malaysia," in *Briefing Notes on Islam, Society, and Politics*, Vol. 4, No. 1 (Washington: Center for Strategic and International Studies, 2001): 19.

[199] Ibid., Kikue Hamayotsu, 363.

equal footing with the west, rejecting western domination and interference in their internal affairs. Second, it promoted an ethnically harmonious nation-state, giving an increasing number of non-Muslims participation in lucrative government contracts and access to the mainstream of national development. Third, it symbolized their strong belief in economic development and material strengths, a crucial element for defending Islam and national integrity. In 1992, the government-backed Malaysian Institute of Islamic Understanding (IKIM) was established. IKIM and other Islamic agencies have advocated UMNO's version of modern and progressive Islam. It was followed by restructuring, in various degrees, of key Islamic institutions such as the *Shari'a* courts, mosques, religious schools, *zakat* collection, and religious officials. The Malaysian government plays a leading role in Islamization, advertising itself as a model of an Islamic nation-state. Malaysia's inclusive approach of modernization rationalized under the three ideological foundations helped to mobilize broader nationalistic sentiments among the Malaysian population.

C. EXCLUSION OF ISLAM IN DEVELOPMENT

1. Islam in Indonesia

Indonesia is an archipelago nation with approximately 17,000 islands with over 1,000 of them inhabited. The population of Indonesia is more than 210 million and consists of 300 ethnic groups.[200] The wide range of ethnic groups are generally known as the "Malay Stock," all distinguished from each others by language, social structure, occupation and religion.[201] There is one national language, *Bahasa Indonesia*, a modern form of Malay, but many of the ethnic languages maintain their traditional role at the home, village and regional level. Indonesia has the greatest number of Muslims in the world, over 90% of the total population ascribes to Islam. The remainder of the population consists of six million Christians, 2.5 million Hindu Balinese, and smaller numbers of Buddhists and local mystical cults.[202]

In the 13th century, Islam was introduced to the Indonesian society of Pasai, in north Sumatra by Arab and Indian traders, mostly Sufis, who bartered and traded their

[200] Ibid., Othman bin Abdullah, Masters Thesis, 53.

[201] Anthony H. Johns, "Indonesia: Islam and Cultural Pluralism," in John L. Esposito, eds., *Islam in Asia: Religion, Politics & Society* (New York: Oxford University Press, 1987), 202.

[202] Ibid.

goods for spices of the East Indies. This development was followed by Muslims' control over the Indian Ocean trading system. In the 16th and the 17th centuries, Islam's influence gradually spread to all areas of Indonesia.[203] Islam, however, did not displace the existing cultural traditions that were mainly Hindu and Buddhist, as it was tolerant, pluralistic and non-coercive. This peaceful diffusion of Islam in Indonesia signifies a claim that "there is no evidence of foreign military expeditions imposing Islam by conquest in Indonesia."[204]

Indonesian Muslims are mainly Sunni from the *Shafi'i* school of law. They were divided into many Muslim communities that were loyal to respective regions and strongly influenced by pre-modern history.[205] By the end of the 18th century, the world-wide ideas of Islamic reform ranging from *Wahhabism*, reformists, and modernists reached Indonesia. [206] These situations have inculcated greater variations between the scope and focus of Islamic responses. Adam Schwarz categorized the Javanese Islamic beliefs into *abangan, santri*, and *priyayi*.[207] The *abangan* is the religious mixture of traditional mystical beliefs, Hindu-Buddhism and Islam. The *santri* is concerned more with Islamic principles, especially the moral and social interpretations that were intolerant with the traditional beliefs and practices. The *priyayi* is the aristocratic elite, which originally formed the Javanese kingdoms, but later became the bureaucrats and administrators. Both the *abangan* and *santri* were petty traders, merchants, and peasants. However, since independence, the bureaucracy has become accessible to other segments of the society.

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[203] Ibid., 205.

[204] M. C. Ricklefs, *A History of Modern Indonesia since circa 1300 to the Present*, 2nd Edition, (Stanford: Stanford University Press, 1993), in Othman bin Abdullah, 55.

[205] There are variations on the basic way of synthesizing Islam with non-Islamic traditions. For example, in 17th century Aceh, various *Sufi* preachers propagated the teachings of the unity of being by Ibn al-Arabi, which emphasize mystical unity and ecstatic experiences and its receptiveness to a folk-culture version of Islam. In Mataram, Java, on the other hand, the state combined Islamic and Hindu concepts of rule whereas the village culture was compounded of animist, Hindu, and Islamic influence. (Source: Ibid., Ira M. Lapidus, 392).

[206] *Wahhabism is* a Muslim purification or a pre-modern movement against the Sufis and Shi'a. Led by Abd al-Wahhab (1703-1787), they argued that the attitude of reverence toward saints had led to a blind acceptance (*taqlid*) of their authority and this was to be rejected and replaced by the sole authority of Islam. The characteristics of the *Wahhabi*, among others, are to call for *ijtihad* for one to rethink the meaning of the original message of Islam and to call for revivalist reforms through the armed forces (*jihad*) if necessary. (Source: Andrew Rippin, *Muslims: Their Religious Beliefs and Practices*, 2nd Edition (New York: Rutledge, 2001), 160-161).

[207] Adam Schwarz, *A Nation in Waiting: Indonesia's Search for Stability*, Updated Version, (Colorado: Westview Press, 2000), 166-167 in Othman bin Abdullah, 56.

During pre-independence Indonesia, Islamic characters were reflected in Indonesian politics and governance.[208] Dutch colonization in the 19th century brought a western concept of nationalism and secularism to the region. The condition eventually helped the local secular and religious associations emerge. Notably, in 1908 a Javanese cultural organization, *Budi Utomo* (Noble Endeavor), which was secular and nationalistic in nature, was founded. In 1912, *Muhammadiyya*, an apolitical Muslim organization with reformist ideas, was founded in response to secularism that balanced between *Qur'an* scripture and civil law. To meet its needs, *Muhammadiyya* followed the western missionary organizations by founding its own network of schools, teachers' colleges, hospitals, and orphanages. In the same year, *Sarekat Islam* (Islamic Federation), a political organization, was formed. The *Sarekat* rose from an organization known as the Islamic Traders' Federation that aimed at improving facilities and opportunities for local traders. In 1922, *Sarekat Islam* broke into the left wing, which became the Indonesian Communist Party (PKI) and the Islamic wing, which became the Islamic political party, *Partai Serikat Islam Indonesia* (PSII). In 1926, the *Nahdlatul Ulama* (NU or the revival of the *ulama*), the Muslim traditionalists, was formed in response to the undermining of the traditional authority of *ulama* by reformist movements. Both the PSII and NU remain as independent political parties.

During World War II, the Japanese occupying force had planned for the emergence of an independent Indonesia as part of Japan's long-term planning of the Greater East Asia Co-Prosperity Sphere. They actively courted Islamic groups by exploiting Muslim-anti Dutch feelings, drawing the Muslim groups into the administration, establishing a Department of Religious Affairs, and training Muslim militias against the Allied invasion.[209] To keep control of the potential danger from Islamic groups, however, they created a unified Muslim political federation known as *Masyumi* (Consultative Council of Indonesian Muslims) in 1943.

Indonesia gained its independence in 1945. Under the leadership of President Soekarno, Muslims' influence in national politics declined due to the government's oppression, the collapse of *santri* businesses, and the rejection of political Islam by some

[208] Ibid., Anthony H. Johns, 206.

[209] Ibid., Othman bin Abdullah, 58.

Javanese.[210] NU remained active in the anti-communist network that consisted of the banned *Masyumi* members, modernists youth organizations, conservative nationalists and the armed forces. Thus, despite having the greatest Muslim populations, Indonesia is not an Islamic state. Islam is not a state religion and although there are Muslim political parties, they are not influential enough to convert the nation to a purely Islamic state.

In 1965, PKI attempted a coup to overthrow the government. The political turmoil forced Soekarno to relinquish his powers and the political parties were marginalized. Islam played a central role in defeating the PKI in 1966, paving the way for a military coalition headed by General Suharto to secure power in 1967. However, as a political force, Islam was sidelined in the New Order regime under President Suharto.

Under the New Order and subsequent regimes, Islam was disproportionately discredited in the development of Indonesia. Such action conformed to the existence of political and ideological discourse, which centered on the division between two institutions—the nationalists and the Islamists.[211] The Nationalists (government) argued that a society based on religions, ethnicity, regional and class affiliations would not be capable of moving forward as an economically strong nation.[212] Islamists (secular-modernizers, moderate social democrats, Javanese mystical groups and NU) were accused of being sectarian and advocating an anti-state ideology despite NU's claim that Islam is compatible with modern civilization.

Both assumptions resulted in a political controversy, which led to an unfinished debate over some form of formal link between Islamic ideology and the state, and those in favor of the five principles of *Pancasila* as the ideological foundation of the state.[213] Many Muslim modernists that hoped for Islam to be stipulated in the state's constitution were disappointed by its exclusion in favor of the *Pancasila*. Even though the *Pancasila*

[210] Not only in Indonesia, government, policymakers, and experts around the globe debate whether political Islam, or "Islamic fundamentalism," is a multifaceted and diverse phenomenon or a uniformly clear and present danger to be consistently and persistently repressed. (Source: John L. Esposito, eds., *Political Islam: Revolution, Radicalism, or Reform?* (Colorado: Lynne Reinner Publishers, 1997).

[211] Ibid., Kikue Hamayotsu, 365.

[212] Ibid., 60.

[213] *Pancasila* is a state philosophy. In the preamble to the constitution, these are set out as a belief in the one Supreme God; a just and civilized humanity; the unity of Indonesia; democracy led by the wisdom of unanimity arising from deliberations among representatives of the people; and social justice for all the people of Indonesia. (Source: Anthony H. Johns, Ibid., 203).

first principle is related to religion, which states "believe in one god," it does not codify the implementation of *Shari'a*. The statement of believe in one god with the obligation for adherents of Islam to implement the *Shari'a* remain politically contentious.[214] In fact, Muslims cannot implement the *Shari'a* as the government argued that religious allegiance is irrelevant to citizenship—all, regardless of faith and race, should receive equal administrative and financial support from the government. Suharto exemplified a strong secular-nationalist leadership backed by the armed forces (Angkatan Bersenjata Republic Indonesia or ABRI), particularly the Army, which assumed a dominant role in the state and society. It was the army that dictated the fundamental direction of the New Order's state development and claimed to be the defender of the nation and territorial integration. Religion ranked low in the values of leadership since the government concentrated on holding power, stabilizing the economy and reaping the benefits of development itself. The integrationist national ideology further undermined the exclusion of Islam by rationalizing political Islam as a potential enemy within the national boundary.[215]

Political Islam is neutralized in the political, ideological, and socio-economic spheres.[216] Politically, activities of the four Islamic parties were integrated into the United Development Party (*Partai Persatuan Pembangunan* or PPP) in 1973.[217] PPP's opposition of the government-sponsored party, *Golkar* (*Golongan Karya* or functional group), always lacked coherence, which is undermined by individual component parties. In 1984, the government required all political parties and social and religious organizations to acknowledge the *Pancasila* as their sole ideological foundation. The government's attempt to eliminate any promotion of Islamic ideology in Indonesia touched the sensitive issue of *Shari'a* implementation and eventually divided Muslims leadership. Economically, Muslims were marginalized especially under Suharto. Non-Muslims—particularly Chinese and Christians—played significant roles in various fields both in the public and private sectors. Certain Christians held pre-dominant positions in

214 Ibid., Othman bin Abdullah, 59.

215 Ibid., Kikue Hamayotsu, 367.

216 Ibid.

217 NU, PSI, Partai Muslimin Indonesia (PMI), and *Perti*.

the bureaucracy, military, and education institutions while the Chinese who were connected to the government built large business empires and became partners in government projects. Internationally, Indonesia maintained its un-Islamic stance, which was reflected by a non-religious practicality of foreign policy. Indonesia's international priority was economic development based on important relations with western countries. Indonesia's role in the Islamic world was marginal as Suharto was less interested in issues of the Islamic world.

Although Indonesia repressed Islam politically, it did not hinder the socio-cultural activities of the Muslims. Once the leadership was satisfied that Islam no longer influenced politics, they provided massive infrastructural support, particularly in education and social welfare.[218] The policy led to a significant Islamization in the state and society: Islamic education was expanded; many modernist Muslims replaced the dominant *abangan* Muslims in the bureaucracy; the government's non-interventionist approach led many institutions, which were governed by private actors; and the Islamic revival, as experienced by Malaysia, penetrated into the Golkar and ABRI. As a result, in the 1980s, Indonesia made a political realignment through the leadership's rapprochement with influential Muslim communities. The government created a flexible conservative Islam by stimulating the growth of pro-democracy Islam and created an ideology of tolerance.[219] In 1990, the government blessed the foundation of the Association of Indonesian Muslim Intellectuals (*Ikatan Cendekiawan Muslim Se-Indonesia* or ICMI) that allied Muslims professionals, Islamic figures, and the government. ICMI, under the leadership of B.J. Habibie, Suharto's cabinet minister, gave hope to Muslims professionals who were deprived under the exclusivist policy of gaining favors from the government. Habibie built an enormous clientele, mostly urban Muslim professionals, within the state and private businesses, and a patronage of Islamic institutions network.

The adjustment, however, did not greatly change the fundamental policy of a highly centralized and uneven distribution of upward social mobility as the capital

[218] Robert W. Hefner, "Islamization and Democratization in Indonesia," in Robert W. Hefner and Patricia Horvatich, eds., *Islam in Era of Nation-States: Politics and Religious Renewal in Muslim Southeast Asia* (Honolulu: University of Hawaii Press, 1997), 189.

[219] Ibid., 61.

accumulation continued to favor the limited elite.[220] The downfall of ICMI, in line with Suharto's regime in 1998, proved the organization's foundation and ideological weaknesses. The consequences were growing tension between the Muslims and the non-Muslims. While the Muslims felt that they were deprived in politics and economy, the Chinese on the other hand, were not properly treated as national citizens. After the 1997 financial crisis, the ethno-religious imbalance had created violent conflicts, which centered on anti-Christians and anti-Chinese sentiments.[221]

The regime change under President Abdurrahman Wahid, a Muslim and leader of NU, brought about political liberalization.[222] Wahid symbolized the possibility of economic and political reform and the rising of political Islam and activist movements. Several new political parties emerged and modernist Muslims formally voiced their terms regarding their Islamic vision of a new order. While some Islamic parties advocated *Shari'a* law, others under the *Muhammadiyya* and NU banners remained with the secular-nationalists. Wahid assured the people that Indonesia should remain committed to the secular-nationalist principles. However, Wahid's removal from the presidency represented a significant setback for the Islamic parties and organizations that wished to participate in and influence Indonesian politics. Their cause would not be easy.[223] His leadership and reform ineffectiveness eroded the confidence of the Muslim parties.

President Megawati, who inherited the secular-nationalist principle, struggled to recover from the 1998 financial crisis, political instability and separatism. She faced several competitors from the Islamic parties, the most prominent being Amien Rais, the leader of *Muhammadiyya* because Rais did not favor her as a replacement for Wahid.[224] Megawati further brushed the Islamic forces to the side-line of the state's structure. The integrationist ideology of *Pancasila*, therefore, excluded Islam from the formal channels of influences.

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220 Ibid., Kikue Hamayotsu, 372.

221 Ibid.

222 Ibid., 373.

223 Ibid., Shireen T. Hunter, "Islam and Politics in Indonesia," 19.

224 Ibid.

2. Islam in India

India has 80 million Muslims or about 12% of its total population representing the third largest Muslim community in the world, after Indonesia and Pakistan. Before the partition of Pakistan, Muslims formed 24% of the population. After the partition and after Bangladesh was established, Muslims in south Asia were almost equally divided among the three states. In India, except in the state of Jammu and Kashmir and in the Union Territory of Lakshdweep, Muslims do not form a majority.[225] Despite this fact, their influence on the Indian societies is strong.

The process of converting Indians to Islam began in the 8th century by the Arabs invaders of northern India and Pakistan. From the 11th century, the spreaders of Islam in India, among others, were the *Sufis* and non-Arab Muslims of Bukhara, Turkey, Iran, Yemen and Afghanistan. The accepted assumption is that most Indian Muslims were converted to Islam through the sword.[226] Most of the Muslim converts belonged to the lower classes of the Indian societies. There are also Muslims who belonged to the Hindu ruling families and the descendents of ruling Muslim invaders. These families brought to their kingdoms Muslim mercenaries, businessmen and slaves from abroad such as Russia, Afghanistan, Turkey, Arab countries, and Africa. Muslim Indians were generally divided into the Sunni and the Shi'a. Nevertheless, different communities adopted Islam in different ways bearing different names. In Kerala of south India, for example, the Mophilla community descends from Arab merchants while the Pathans are Muslims who arrived from Afghanistan, and the Nawait are descendents of Arab and Persian immigrants.[227]

Before the British rule, there was no Indian identity by itself. Indians were distinguished by a decentralized and localized culture that is difficult to define. Hinduism, Buddhism, Jainism, Sikhism, and Islam coexisted rather easily.[228] Even under

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[225] Syed Shahabuddin and Theodore P. Wright, "Muslim Minority Politics and Society," in John L. Esposito, eds., *Islam in Asia: Religion, Politics & Society* (New York: Oxford University Press, 1987), 152.

[226] "The Mughal Empire in India." Database on-line. Available from *Khilafah al-Alam al-Islami*. http://islamic-world.net/islamic-state/islam_in_India.htm. Accessed 15 July 2003.

[227] Ibid.

[228] Deepa Ollapally, "South Asia's Politics of Paranoia," *The World & I*, Vol. 18, No. 5 (Washington: May 2003): 56.

the Islamic *Mughals*, the early emperors, like Akbar, were inclusive in their rule and appointed some Hindu advisors. Due to the fragmented nature of ancient Hinduism, the successive invasions kept their tradition intact, as they tended to tolerate rather than to repel. Although clashes between Hindus and Muslims occurred, conflicts were centered on class or rivalry, rather than mutual distrusts.

Despite ruling part of northern India for six centuries, Muslims now became the religious and language minority, living in a so-called *Dar al-Harb* situation. This significant twist of fate is related to the partition of Pakistan from British India. To gain independence from the British, Indian Muslim *ulama* joined the nationalist movement with the vision of a united India, jointly ruled by Hindus and Muslims. The *ulama* reflected Prophet Muhammad's pact (*ahad*) with the Jews in Medina as the model and religious justification for sharing power with the Hindus.[229] To them, India should be *Dar al-Ahad*.[230] But in reality, many Muslims perceived India as *Dar al-Kufr* (Land of the Unbeliever) as the prospect of *Dar al-Ahad* were clouted by colonial policies, religious separatism, and the Indian Constitution.

The British divide-and-rule policy started with the kings and princes who governed different regions without regard to religion. It was followed by the Hindu-Muslim sectarian-chauvinist politics after the anti-colonial forces emerged in the late 19th and early 20th centuries.[231] Muslims suspected of helping the 1857 Sepoy Revolt were discriminated again by the British who gave the advantage to the Hindus. The social division deepened when the British perceived Hindus and Muslims as distinct people. A mechanism to separate electorates based on religion was introduced in 1909. After independence in 1947, India's constitution eliminated this feature and substituted it by general electorates so that members of all castes, religions, and communities could vote. By then, it was too late, as Islam had led to the partition.

The partition led many Muslims to emigrate from northern India to Pakistan as well as Sikhs and Hindus to migrate in the opposite direction. This emigration caused an

[229] Ibid., Syed Shahabuddin and Theodore P. Wright, "Muslim Minority Politics and Society," 156.

[230] Muslim jurists also refer it as *Dar al-Aman* (Land of Peace) where the Muslims live peacefully, where their life, honor, and property are safe, and where they are free to perform their religious obligation (Source: Syed Shahabuddin and Theodore P. Wright, 157).

[231] Ibid., Deepa Ollapally.

outflow of skilled human resources that weakened the economy, reduced the political role of Muslims, and disrupted the social structure of the Muslim community in India. As fellow Indians looked at the majority of the remaining Muslims with distrust, two Muslim classes were not affected by the partition: the influential landholding cultivators in the north and the traders in the south.[232] For the rest of the minority, who were generally poor, their possible goals were either to assimilate or to integrate into the society, seeking autonomy, secession, or domination.[233] Generally, in India, Muslims resist absorption, demand cultural autonomy, but reject secession, except for Pakistan and Kashmir.

For both India and Pakistan, the Kashmiri issue is crucial in terms of religious and territorial integrity.[234] India, a country held together by an ideology of unity in diversity, believes that a concession to religious separatism is likely to tear the secular structure apart. Most Indians fear a second partition [Kashmir] may affect the nation's political resilience. Indians are proud of their plural, democratic society despite the country's economic underdevelopment. Pakistan, on the other hand, sees Kashmir as the hallmark to prove that Muslims cannot be treated equally in Hindu-dominated country.

To ease the religious separatism issue, the Indian secular-nationalist leaders drafted their constitution with the vision of a secular state that does not support Hinduism as a religion. Since more than 80% of the Indian population is Hindu, this concept challenged the sentiment for Hindu statehood even though India is heterogeneous and is a land of minorities. The constitution offers Muslims the opportunity to share power as legal equals with non-Muslims, not as rulers or servants: There is no discrimination on religious, language and caste grounds; equal opportunities exist as well as ensure the entry of the disadvantaged in public employment; they are free to manage their own religious affairs; and there is no compulsion to attend religious ceremonies.[235] However, there are articles that many Muslims objected to on religious grounds: the state seeks to

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[232] Ibid., Syed Shahabuddin and Theodore P. Wright, 156.

[233] Richard A. Schermerhorn, *Comparative Ethnic Relations* (New York: Random House, 1970), 78-85 in Syed Shahabuddin and Theodore P. Wright, 156.

[234] Ibid., Deepa Ollapally.

[235] Ibid., Syed Shahabuddin and Theodore P. Wright, 155.

secure a uniform civil code for all citizens; and the prohibition on the slaughter of cows. Even though the constitution provides Muslim minorities with equal opportunity and protection, in reality many perceive that there are gaps in its implementation.

In the late 1980s, the impact of Hinduism on Indian politics was seen. The public increasingly supported Hindu nationalist parties. Then in the 1990s, the rise of Hindu nationalism produced a harsher anti-minority discourse in India. The Hindu-Muslim violence in Ayodhya in the state of Uttar Pradesh in 1992 and in the state of Gujarat in March 2002 marked the events that heightened the tensions.[236] The consequence and cause of this disorder was a religious resurgence. The diverse religious and ethnic divisions in South Asia have produced fundamentalist movements that affect the events in India's subcontinent such as *Jamaati-Islami* (Islamic Association), Hindu Nationalism, and Sikh Fundamentalism.[237] Sikh Fundamentalism, however, limited only in the state of Punjab has largely been contained.

Given the difficulty faced by Muslim minorities in India, they must tolerate the situations by having strategies and clear goals for their survival. In the politico-religious sphere, Muslims were actively involved in elections, and were elected and nominated as cabinet ministers. In public services, they became governors and judges. Before independence, Muslims enjoyed disproportionately high representation in the legislatures, through the system of communal electorate and reserved seats. After independence, such advantages were lost owing to a re-shifting of common constituency's elections, gerrymandering in the delimitation of constituencies, and exclusion from elections based on weak grounds.[238] Muslim leadership had to adopt different strategies such as working closely with the ruling Congress Party, forming a Muslim Consultative Committee to choose credible Muslim candidates, or even choosing not to participate in politics.[239] Whatever the Muslims politicians, press, parties, and pressure groups have agitated for in

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[236] Krishna Kumar, "Religious Fundamentalism in India and Beyond," *Parameters*, Vol. 32, No. 3 (Carlisle Barracks: Autumn 2002): 17.

[237] Ibid.

[238] For example, the representation of Muslims from the first to the present elected House of People (Lok Sabha) is about half of what their population (12%) requires. (Source: "Religious Discrimination and Human Rights Abuse is Commonplace in India," A press release from the *Indian Muslim Federation-UK*, 28 August 2001).

[239] Ibid., Syed Shahabuddin and Theodore P. Wright, 161.

public life, however, does not reflect the Muslim masses but rather the northern Indian elite. Even the prevention of anti-Muslim violence does not receive a favorable response from the masses because they are preoccupied with individual physical and economic survival. Muslims have demanded non-interference in the Muslim personal law, which conflicts with the proposed introduction of a common civil law. This tends to produce a direct confrontation with the secular state. Even the Hindus who have sacrificed some of their religious customs resent the issue being politicized.

In addition to losing politically, Muslims faced socio-economic discrimination. Job discrimination against Muslims is more persistent in the private sector, especially by large industrial and commercial enterprises with the exception of those Muslim owned.[240] In public services, for example, Muslim representation is only 2 to 4% of the Muslim population.[241] Muslim entrepreneurs fall victim to an anti-Muslim bias in securing government loans and permits, which is subject to bureaucratic discretion and corruption. Muslims have achieved some economic progress in cottage industries, but their goods and stores are often destroyed in communal riots. In education, Muslims enrollment at every level of education is low by proportion, even in areas with dense populations of Muslims. This is due to the lack of schools in Muslim areas, the neglect of Urdu and the imposition of Sanskrit, the prescription of non-secular books and Hindu religious rites in schools.[242] The implication is that Muslims have less ability to be involved in politics, decision-making, business and the public sector.

Additionally, the government's economic policy has helped to deepen such inequality despite India's economic growth. After more than fifty years of independence, India enjoyed an increase in its GDP and the economic growth rate, and advances in lifestyle and living standards. In 2002, India's economy only grew 4.3%, but it was the

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[240] For job discriminations, see for example, Arif Aziz, "Discrimination and Partiality Against the Muslims." Database on-line. Available from *The Milli Gazette*. http://www.milligazette.com/Archives/15052001/24.htm. Accessed 12 November 2003.

[241] Ibid., "Religious Discrimination and Human Rights Abuse is Commonplace in India," A press release from the *Indian Muslim Federation-UK*.

[242] For cultural differences and religious divisions, see for example, Irfan Habib, "The Nation That is India." Database on-line. Available from *The Little Magazine*, Vol. 3, No. 3. http://www.littlemag.com/faith/irfanhabib2.html. Accessed 12 November 2003; Said Suhrawardy, "Economic Handicaps of Indian Muslims." Database on-line. Available from *The Milli Gazette*. http://www.milligazette.com/Archives/01082001/31.htm. Accessed 12 November 2003.

second fastest in the world after China while this year, it is expected to grow 7%.[243] The growth came from a strong industry and agriculture, and a rise in local and foreign investments. Nonetheless, the increase was not due to the vast diversity of available local products but rather an increasingly overabundance of middle-class consumables.[244] For millions of Indians, who have long been marginalized by caste or class, they are now demanding justice. The economic system, as well as widespread corruption by political and economic elites and growing social unrest have generated increasing disparities: under- and unemployment; deterioration of livelihoods; poverty; decline in trade union memberships; and an increase of workers in the informal sectors in the regular economy; and irregular employment.[245]

Hence, India's economic system is perceived to have excluded the Muslims and the poor majority of Indians. A decade after independence, India's economy depended largely on industrialization, militarization, and later chemical-based agriculture. Following the 1950s, social reforms abolished landlordism, introduced a "reservations system" (affirmative action) for scheduled castes and tribes, and invested in telecommunications, basic industries and infrastructures.[246] In addition, the first Five-Year Plan (1950 to 1955) was launched for a greater social and economic welfare, which emphasized agriculture, cottage, and small and medium-size industries. Then, the second plan (1955 to 1960) was aimed at achieving higher standards of industry and agriculture. Over the short term, however, these policies increased inequality and uneven development.[247]

Through the fifth plan (1970 to 1975) and onwards, the government responded with several poverty alleviation programs using the bureaucratic model of implementing "socialist" objectives. However, most of the top-down development policies produced

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[243] Amy Waldman, "Despite Widespread Poverty, a Consumer Class Emerged in India," *New York Times*, 20 October 2003.

[244] Smitu Kothari, "Whose Independence? The Social Impact of Economic Reform in India," *Journal of International Affairs*, Vol. 51, No. 1, (Summer 1997): 85.

[245] Ibid., 86.

[246] Ibid.

[247] The basic causes of inequality and poverty are inequitable ownership of land and productive resources, caste hierarchies, and natural resource-intensive industrialization that induced poverty upon people dependent on such resources.

marginal benefits. The "Abolish Poverty" policy, for example, a pro-poor strategy aimed at curbing the power of the wealthy, was politically challenged by the middle and wealthy classes. The bureaucracies, to make it worse, were mostly represented by elites with high levels of political ties.[248] The effect was reinforced dependency and corruption rather than widespread economic redistribution. Even though the lower classes' participation in the economy has increased, their numbers are marginal. Up to 1990, the powerful urban and rural elites contributed little to the establishment of an egalitarian order—a dynamic and decentralized society and economy.[249] In the advent of globalization, the government has initiated extensive economic policy reforms that allow a free-market economy to operate. In 1991, the New Economic Policy was introduced in conjunction with the IMF and the World Bank's Structural Adjustment Programs (SAP) reforms. The economic, social and political consequences, among others, are higher prices of essential commodities, an increase in unemployment, a decrease in private-sector employment due to computerization, and an increase in prices. By 1997, 40% of Indians lived in poverty and 30% were just above it.[250] The condition suggests that the development and poverty alleviation policies did not work and economic growth did not strengthen democracy since most advantages were secured by the wealthy.

Economic and social grievances of the Indians, specifically the Muslims, have received little attention from the Islamic world, except for Pakistan. The Kashmiri issue and the Muslim solidarity have influenced Pakistan's strategic interest. The pan-Islamic organizations, like OIC, have made no concrete effort to expand their activities in Muslim minority areas, especially India. Issues such as the Kashmiri conflict, Pakistan's exploitation of the maltreatment of Muslims in India and India's effort to contain the issue by taking a pro-Arab stance in Palestinian do not receive attention by the OIC. Islamic solidarity is only seen in terms of charitable contributions to build *madrasa* and Indian Muslim minorities turn their attention toward self-help.

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[248] Ibid., Smitu Kothari, 88.

[249] Ibid., 90.

[250] Ibid., 100-104.

D. CONCLUSION

Islam was first introduced in South and Southeast Asia as early as the 8th century and it has now undergone significant changes. The emergence of Islamic resurgence in the late 19th century and the post-colonial era and beyond, have changed the dynamics of Islam and Muslim identity in this part of Asia. Variants of Islamic ideologies have emerged in the form of organizational movements, political parties, and religious separatism. Generally, government's response to these challenges also varies from one another.

This comparative analysis argues that the ideological disposition of each state has had certain consequences on the course of development. The outcome depends upon the way each state leader adopts a particular ideology. The role of Islam in the state's development programs, either being inclusive or exclusive, greatly impacts the development process. In Muslim or non-Muslim states, governments have not effectively addressed the political and economic grievances. Also, the self-determined aspirations of religious and ethnic minority groups contribute to the appeal for a political Islam and religious separatism.

The most evident aspect of this comparative analysis is the effect of threat perceptions that the state leaders manipulated. In Malaysia, the idea of the clash of civilizations, which centered on the west's opposition to Islam, has successfully mobilized the emerging Malaysian nationalism. After September 11, UMNO labeled its political rivalry PAS as a threat to national security and the domestic anti-terrorist campaign helped Malaysia discredit political Islam. In Indonesia, the perceived threat was within the national boundaries in which Islam was victimized, especially during the Suharto era. After that, Islam continued to be side-lined in the state's development. Indonesia remains defensive by pressures from the Muslims parties that hamper its anti-terrorist efforts. In India, religious separatism threatened the ideology of unity in diversity. Kashmir's partition may affect the nation's political resilience. To outweigh Pakistan over the Kashmir issue, India supported the Palestine cause. India's anti-terrorist efforts were successful with the pacification of Sikh fundamentalism and Kashmir separatism. However, India has yet to make serious commitments against the growing threat of the Hindu nationalism.

In sum, the role of Islam differs fundamentally in countries with only a minority of Muslims in their populations from those with a Muslim majority. The problem the government faces it is that it must construct a lasting program that balances the needs of their Muslim constituencies without: (1) sacrificing the rights of ethnic minorities and political freedom such as in Malaysia or (2) excluding Islam in favor of a secular-nationalistic ideology and favoring business partners and non-Muslims as in Indonesia, or (3) sacrificing the sovereign political administration of their territorial space and the wealthy exploiting resources, which India has experienced.

To be successful, countries should include ethnics groups that are the major stake holders in nation-building. For ethnic the minority, they should share the ideological beliefs of the state. As the state seeks to establish a specific social agenda for development, any religious states may face challenges from a diversity of the population. The diversity makes it necessary for the state to favor a particular ethnic group over others, thus institutionalizing discrimination and intolerance. Therefore, in such an environment, ethnic minorities have to safeguard their interests within the nation-state itself, provided that the state does not discriminate on the basis of religion. The minorities should also be granted freedom in managing social and cultural institutions.

Obviously, the public role of Islam in India, for example, is more restricted as compared to Malaysia and Indonesia. The secular government tried hard to include Islam as part of the nation building, but the political situation that is clouded by inter and intra-religious, racial, and fundamentalist/extremist groups hindered such aspiration. Therefore the political goal of Muslim Indians is neither separatism nor dominance and neither have they hoped for outside support. They have wanted to maintain a religious identity and equality. Nevertheless, if the state does not meet their goals, there will be a perpetual struggle against the state.

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VI. SUMMARY, CONCLUSION, AND POLICY GUIDANCE

A. INTRODUCTION

This study was conducted to determine whether Islam has affected economic growth in Malaysia since its independence. The descriptive method of research was used and the case study technique was used for gathering data. All the data collected came from primary, secondary and electronic resources. Malaysia's case is unique in the Muslim world and very rare in the Third World. Malaysia has achieved tremendous economic growth since independence and has successfully navigated the path through economic recessions in 1986 and 1997.

B. SUMMARY OF FINDINGS

1. Islam and the Malays

Islam was introduced to the Malays through peaceful means by the Sufis and the Arab and Indian traders in the 14th century. Through the Malay sultanates, Islam was diffused to their subjects. The Malays are identified with Islam because almost all of them were Muslim. Malay Muslims are mostly Sunnis from the *Shafi'i* school with a strong influence by the Sufi, Hindu, and animistic sources. These influences declined in the process of education and modernization.

There are four categories of Malay Muslim communities. The radicals advocate violent changes in the relationship between Islam and the Malaysian society. Other Muslim groups' condemnation and the government's stern actions made these radicals less credible. The traditionalists are the rural Malays who practice conservative and ritualistic Islamic beliefs. They are the bulk of the Malay-Islam, mostly peasants, and support a wider Islamic role in the government and society. The fundamentalists or the revivalists are the educated urban Malays that practice orthodox Islam. They seek to expand the role of Islam in economics, religion, and politics using education, forums, media and non-violent means. The accommodationists are the Malay politicians at the national level who emphasize ethnic unity in a pluralist society. The fundamentalist groups, the PAS and the UMNO, through government-sponsored agencies, have been the essential force in developing the Malaysian society.

Politically, the rural Malays contributed much of the support to the UMNO and the PAS. The UMNO leads the coalition government known as the National United Front while the latter is the leading opposition party. Followers of both parties adhere to the same religious beliefs and practices but differ in political ideology. The UMNO promotes Islamic universalism, multiculturalism, and Islamic modernism while the PAS promotes political Islam, which favors a religious state. While both envision a progressive Malaysia, the UMNO's approach is more accommodative for a wider participation of all Malaysians and more active international participation. The PAS, on the other hand, is more conservative, using Islam as a modernizing force.

Owing to intense political rivalries between both parties, each tried to "out-Islam" the other to gain political mileage. Apparently, the PAS political discourses were non-violent except for one major racial riot in 1969. Parallel with the government's effort against domestic terrorism, the PAS was connected to the Malay Muslim radicals. Malaysia has the internal security law (the ISA) to curb any religious radicals, militancy or instigators of sensitive issues that threaten national security.

2. Islam and the State

Malaysia is neither secular nor theocratic. Malaysia is perceived as a secular state, which practices a parliamentary democratic style of government. However, the government claims that Malaysia is an Islamic state based on Islam as the official religion, the head of state and the leaders are Muslims, and aspects of the *Shari'a* were implemented in the administration.

Malaysia is ethnically heterogeneous. About 58% of the total population is *bumiputera* (indigenous locals, of whom the majority is Malay), 24% Chinese, 8% Indians, and 10% others. Ethnic pluralism emerged when the Chinese and the Indian workers immigrated to Malaysia during the British colonial rule. During the Japanese occupation, these ethnic groups, particularly the Malays and the Chinese, were the major opposition against the Japanese.

The heterogeneous environment has led the Malaysian society to opt for some form of accommodation. In the bargain for independence in 1957, certain conditions in the form of social contracts were applied. The Malays retained political powers with their

special rights and privileges protected in the constitution: Islam is the official religion; Malay is the national language; and the Malay sultans remain as the heads of state. The non-Malays [the Chinese and the Indian immigrants], on the other hand, were given citizenship. They had the right to participate in politics, to acknowledge the Malay's special rights, and to continue leading in economics. They are also free to practice their own religion and culture.

A multi-ethnic leadership was created in the form of a coalition government among the major ethnic groups led by the Malays. The prime ministers and the deputy prime ministers were always Malay and the non-Malays were given ministerial positions.

Independence gave Islam a constitution victory that allows Islam to play a major role in the state. The head of state and the prime ministers of Malaysia were elected following the caliphate tradition. Based on Muslim tradition, Malaysia is fit to be called *Dar al-Islam*, as Islam plays a dominant role.

At the federal level, the role of Islam is advisory and ceremonial in nature. Some forms of Islamic values are inculcated in the administration and the government advises the Council of Rulers in matters pertaining to Islam. Islamic institutions and universities were established to further expose Malaysians and internationals on Islamic fundamentals. The federal government was also actively advancing Islamic ideals through international organizations and forums. At the state level, the *Shari'a* was implemented and administered by the state's Religious Council. The *Shari'a*, however, does not apply to non-Muslims.

Although the Muslims dominate, Malaysia stresses the concept of *maslahah* when managing communal issues. The *Rukunegara*, a national ideology, was implemented. This calls for unity, a democratic way of life, social justice, and an equal distribution of wealth. This strategy was successful in avoiding conflict and in promoting growth.

3. Islam and Economics

Some Muslims claim that Islam is compatible with material progress and modernity. The Malaysian government accepts this position. However, the claims were flawed by a shortage of empiric examples that transcend Islamic economic theory. Theories of an Islamic economy therefore remain debatable.

The real implementation of an Islamic economy follows the *Shari'a*. But it is only restricted to interest-free banking, market regulation by the government, management of the *zakat*, and regulating the family and social system such as inheritance, financial punishments, dowries, allowances, and the rulings with regard to widow and children.

In Malaysia, the Islamic family and social systems are regulated through the state Religious Councils and the *Shari'a* courts, which were established during the British colonial rule. Additionally, Malaysia implemented significant Islamic banking systems by establishing the Pilgrims Savings Corporation, the Islamic Bank, the *Takaful* Malaysia, and the *Zakat* collection centers.

Malaysia has encouraged the empowerment of women and believes that "an increase in the supply of labor can increase economic growth."[251] Female workers were important contributors to the country's economic growth. In the mid-1990s, for example, the female labor force was between 44 and 46%.

Malaysia believes that "invention and motivation must be encouraged and the role of education is essential."[252] Education was made a priority to develop the social capital, a prerequisite for growth. State-sponsored and private institutions, which teach a secular and Islamic curriculum, were established to give all Malaysians, including women, a better education. Children at the age of six began pre-school. At seven, they continued their education until the tertiary levels. Although Malay is the national language, mass literacy in other languages, particularly English, was encouraged.

4. Islam and Growth

Critics of Islamic economics were skeptical that an economy based on Islamic principles could promote growth. However, analyzing Islam as one of the variables for growth, much research suggests that Islam promotes growth.[253] There is no conflict between the values of Islam and the values required for economic growth. Religious ideas can positively impact economic growth.

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[251] "The Causes of Economic Growth." Database on-line. Available from *Zambia Virtual*. http://www.bized.ac.uk/virtual/dc/back/dev.htm. Accessed 5 November 2003.

[252] Ibid.

[253] There are other variables that contribute to Malaysia's economic growth such as an increase in trade, security, investment, rural development, women empowerment, etc. This thesis suggests that Islam—leadership, politic, and economic—is one of the variables for Malaysia's economic growth.

In Malaysia, it was evidenced that Islam promotes growth. However, there is no robust relationship between Islam and economic growth at the sub-national level. The Malay-Muslim fundamentalist groups, which were built upon revivalist Islamic principles and a thriving economic enterprise, may have positively contributed to this growth. The government, on the other hand, had significantly played an interventionist role in economic governance. To regulate the economy, development-oriented institutions and policies, and a necessary framework to enact, to finance and to construct socio-economic infrastructures were created. Broad participation, inclusiveness of Islam in development, and the pursuit of public interests were assured.

Economic growth typically refers to an increase in a country's output of goods and services, and is usually measured by changes in real GDP.[254] Since its independence, Malaysia has enjoyed a relatively high growth rate. Its GDP had increased from an average of 6% to 10%, except during crises periods such as in 1986 and 1997.

Due to scarce economic resources, increasing the quality of farmland will increase economic growth.[255] To eradicate poverty among the rural Malays who practiced an agriculture-based economy, Malaysia adopted a rural development policy through agrarian reforms. This policy transformed the poor Malay community to a commercial-oriented sector. The rural sector is vital to the country’s economic growth, and its social and political development.

A lack of entrepreneurial and risk-taking managers will hamper levels of growth.[256] To avert crises, the government responded with development policies that are peculiar to the situation. These included economic diversification, the NEP, the Malaysian incorporated, and the currency control, which were considered risk-taking, as evidenced in the 1960s, 1980s, and 1990s.

[254] Ibid.

[255] Ibid.

[256] Ibid.

The government succeeded in building self-confidence and a "can do" attitude among the people, particularly the Malays, who were once labeled as lazy. However, to instill such self-discipline and to accelerate progress, the government resorts to questionable means such as eradicating its political rivalries and creating cronies.

5. Malaysia's Development Model

In any community development, nation-building or post-conflict reconstruction efforts, there are certain model that a specific country, agency, or community has adopted. There are various private-sector development models available, for example the World Bank and the IMF, the community-based model, the "Marshall Plan" for reconstruction of post-war Europe, or the post-conflict reconstruction pillars.[257] Some of the basic characteristics of these models can be adopted, employing the assumptions, principles, elements, and process. However, a model of a particular country may not be compatible with others due to different variables such as security, scarcity of resources, ethnicity, and financing. Any ready-made model that one tries to introduce for a particular situation may end in failure. On the other hand, the Malaysian experience has shown that variants or combination of models can be successful.

Malaysia's development model is peculiar to its security, natural resources, politico-religious, socio-economic, and pluralistic environment. Malaysia has chosen a combination of secular and Islamic development models. Malaysia adopts the western as well as the Japanese/Korean model such as *laissez-faire*, late industrialization, affirmative action, privatization, and economic liberalization. At the same time, Malaysia promotes an Islamic economic system as part of the *Shari'a* implementation, which covers interest-free banking, *zakat*, and the Islamic family and social system. The top-down approach was applied as evidenced by active government participation in all sectors.

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257 See for example "The Marshall Plan." Database on-line. Available from *George C. Marshall Foundation*. http://www.marshallfoundation.org/about_gcm/marshall_plan.htm#truman_doctrine. Accessed 6 November 2003; Ross Gittell and Avis Dival, *Community Organizing: Building Social Capital as a Development Strategy* (Thousand Oaks: SAGE Publications, 1998); "The Post-Conflict Security Building and Reconstruction Pillars," *Center for the Strategic and International Studies*, 2001.

There are certain processes that Malaysia's development model has implemented. Since the pre-independence period, Malaysia has formulated a "Five-Year Development Plan." The first development plan was introduced in 1956 and until now, Malaysia has successfully implemented ten such plans.

From 1957 to 1970, a market-led economy through *laissez-faire* policies was implemented concurrent with the five-year plans. Malaysian economy during this period depended heavily on producing and exporting tin and rubber. The government actively intervened to develop the agricultural and rural sectors concerning the traditional Malay subsistence regions that were neglected during the British colonial rule. Agriculture contributes much more of the GDP than manufacturing. Thus, the government promoted an import-substituting industrialization.

From 1970 to 1990, a state-led development strategy was initiated. The NEP was introduced, which legitimized the increase in the state and public sector intervention for inter-ethnic redistribution. The aim was to eradicate poverty and to eliminate the identification of race and ethnicity in economic matters. The NEP consolidated the development strategy of export-oriented industrialization and directly redressed the ethnic imbalances in economy.

From 1981 until 1985, a heavy industrializations period, the Japanese/Korean models were emulated as examples. The government subsidized heavy industries, such as steel and auto manufacturing. The mid-1980s was also a countercyclical period, due to the global crisis that severely struck the Malaysia's economy.

From 1986 to the present, Malaysia initiated a more pragmatic policy of administrative reform, known as the Malaysian Incorporation. It was the economic liberalization period and privatization was encouraged. This policy uses consultative mechanism and public-private collaboration with the government influencing the direction of development. The manufacturing sector grew, characterized by domestic market and export-orientated structures. In 1991, this policy was formalized as the NDP. In 1997, Malaysia implemented a drastic currency control in response to the Asian financial crisis.

For the 21st century, Malaysia initiated "Vision 2020," a plan that envisioned the country to be fully developed by the year 2020. Currently, this vision was reflected in the efforts to make Malaysia a center for tourism, education, IT, and knowledge-based industries.

Despite adopting secular development models, Malaysia established a moral order motivated by Islamic principles in its nation building. In 1984, Malaysia took the Islamization process seriously by inculcating Islamic values in the administration. Key Islamic institutions were restructured. An Islamic banking system was introduced. To further educate Malaysian on modern and progressive Islam, IKIM and the International Islamic University were established to expand the Islamic curriculum taught in the local training institutions.

C. CONCLUSION

What we have factually learned about Malay Islam is that they were conservative Sunni who followed the fundamentals of Islam's rejection of violence. Those Malays who pursued political Islam have learned from the bitter experience of 1969 that promotion of such an ideology must be through peaceful means. Additionally, party leaders must demonstrate tangible outcomes in terms of material benefit for the society to gain support among Muslims. In Malaysia, pursuing Muslims' aspiration through radical means could not receive popular support and would face sanctions by the ISA. This law imposes harsh restrictions of political and civil rights, but it is meant to curb violence that can deter growth and make a functioning democracy impossible.

We have also learned that Islam can coexist with other religions. The government has called for a system of accommodation and broad participation. Any differences were clearly laid down under the social contract. In the long run, the pro-Muslims policy effectively addressed the political and economic grievances that benefited the whole society in the form of economic growth. With the political and socio-economic successes, Islam was widely received by the non-Muslims. Furthermore, through public education, the ideological foundations of Islamic universalism, multiculturalism, and Islamic modernism were strengthened. Malaysia demonstrates that Islam can be compatible with modernization. As Islam was included in nation-building, Malaysia's tremendous achievements were considered a success for Islam.

However, we have learned that Malaysia's success does not solely rely on Islam. In fact, implementing an Islamic economic system in Malaysia does not go beyond interest-free banking, administering Islamic family and social system, and inculcating Islamic values in the administration. The principles of secular development models such as security, good planning and management, flexibility, pragmatism, and learning from others were strictly adhered to. Certain Islamic principles such as *maslahah*, social justice, consensus, conserving public resources, and universalism have boosted Malaysia's continued growth. Malaysia demonstrated that the combination of secular and Islamic models of development was the best solution in the long run, especially for a pluralistic society.

Malaysia was idolized by many Muslim and non-Muslim governments because it exemplified a rare and unique experience among the Third-World countries. Malaysia's recipe for success was based on these major assumptions: (1) Malaysia planned its economic programs. (2) Malaysia had leaders with a vision to articulate and implement policies. (3) Malaysia had adequate natural resources to be tapped and exported. (4) Malaysia diversified its economy from agriculture-based to manufacturing and heavy industries. (5) Malaysia had learned a continuous stability from its past experiences, whether from the communist insurgency or the racial riots, or from the threat posed by religious radicals. (6) Internal security law was used to protect the *maslahah* of the society rather than individual rights. (7) Citizens broadly participated in different segments of society, removing discrimination and reducing alienation. (8) Affirmative action was implemented to reduce separations and divisions in the society due to race, ethnicity, and religion. (9) The Malaysian economic governance was improved with the institutionalization of the public-private sector collaboration in economics. (10) Islam's role in the society was broadened in the pluralist society and became inclusive in the nation-building. (11) Differences in religious-politico ideologies among the Muslim sects were reconciled through democratic processes, not through violence. (12) Education was given priority to develop human capital, which promotes innovation and initiative. (13) Women, apart from being an integral and important element of the educated workforce, play an active role in the society.

Key actors or elements can ensure that this model will work: A responsible leader; a strong government; a professional government bureaucracy; a sound and ethical business community; a social contract; the ISA; development plans, such as the Five-Year plans, the NEP, the NDP, and the Malaysia Incorporation; coalition political parties—the National United Front; IKIM; religious councils; Islamic banking; and Muslim fundamentalists or revivalists.

Despite many successes, Malaysia's model had some weaknesses. Over-dependence on the ISA in the pretext of national security has caused great dissatisfaction pertaining to people's individual rights and the rule of law. While Malaysia's material successes should strengthen democracy, the authoritarian style of leadership will perpetuate Malaysia's label of "a pseudo-democracy" to continue. The pro-Malay affirmative action has not reached its targeted goals, and it was said to have benefited few Malays and government cronies.

Islam has positively affected Malaysia's economic growth in many ways. The most significant is that the Muslim Malays correctly interpreted Islam. Malaysia has good and responsible Malay-Muslim leaders, yet the Muslims poverty levels were elevated and many have turned to the business sectors. The Islamic and secular education systems were improved, including the learning of English. Muslim women were free to engage in socio-economic and political activities. The Islamic banking system was institutionalized and the religious institutions were restructured. Islamic values were inculcated in the government administration. The Muslim fundamentalists with revivalists' principles and business-mindedness supported modernization.

D. POLICY GUIDANCE

An answer to whether Islam promotes economic growth is clearly evidenced. We believe that by learning from others, Muslims can improve their economic position. Some government programs such as poverty eradication through affirmative action, outward development models, and correct policy prescription can elevate Muslims to the limelight. In situations in which ethnic pluralism exists, rifts across racial and religious lines should be managed involving a wide spectrum of political initiatives and tolerance so that equality and stability can be achieved to further growth. In these situations, balanced growth is the viable solution to progress.

Malaysia offers much experience in economic success. Malaysia has a stable political system. With planned programs, Malaysia abstained from major policy changes upon reaching independence, except for certain pragmatic policies in response to crises. Malaysia has no experience in socialist economics or inward-looking economic policies. Ethnicity plays a major role in the distribution of wealth and income. The government took an interventionist role in the economy and was quite consistent. Malaysian Islam is seen as an important variable for growth because it follows the fundamentals of Islam and is willing to modernize.

An effective strategy to eradicate poverty requires broad-based political participation and planned programs that can be achieved. The poor tend to benefit from a sustained and high rate of growth only if they are given the opportunities to improve their assets, for example, through public investment in education, health, and infrastructure.

Capturing human development in the fullest sense is of great importance to Muslim nations. Education challenges exist since literacy gaps are prominent in Muslim countries. Muslims need to consider subscribing to the call for Islamic universalism to make them more rational in their actions.

The reasons for the poor economic performance of Muslim countries must be determined particularly in their poorly managed development activity. Establishing relevant institutions and adopting appropriate policies constitute the foundation for successful economic governance. Instead of advocating an Islamic strategy of development, the integration of Islamic institutions into a development strategy will prove more beneficial.

The Islamic revival in almost all Muslim countries has now created the need for a clear integrated picture of the program that Islam has to offer. Government policies should focus on countering the differences facing Muslims particularly in the Islamic economic system and political ideology. We hope this research can give some insight to other countries to adopt the proper strategy for improving its economic development.

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